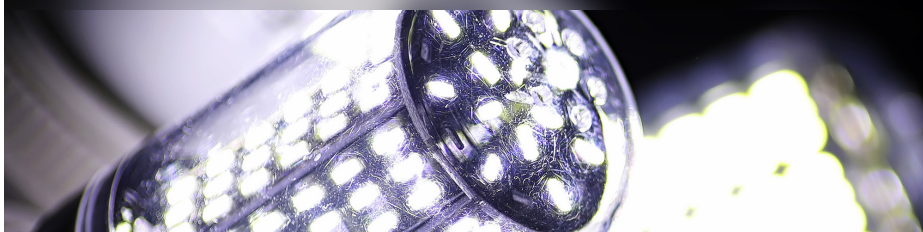


C L I F F O R D

C H A N C E

20TH EDITION



GLOBAL INTELLECTUAL PROPERTY NEWSLETTER
IP IN AUTOMOTIVE AND OTHER IP TOPICS
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20TH EDITION

Introduction

Welcome to the 20th Edition of the Clifford Chance Global IP Newsletter. This newsletter has a focus on IP and the Automotive sector with interesting topics from Europe, Asia and Australia. Besides, we also cover the law of trademarks, copyrights and trade secrets for an IP update on a larger scale.

We start with an article on one of the most trending issues in the Automotive sector: autonomous driving. Our German IP team elaborates on the protection of IP in this context.

After that, we provide you with an update on automotive-specific case law. Our Italian IP team shares insight on the CJEU ruling on design rights and the application of the “repair clause” for wheel rims. The Australian IP team reports on the case “Winnebago Industries v Knott Investments Pty Ltd” before the Federal Court of Australia concerning damages for passing off trademarks of renowned recreational vehicles.

We build a bridge from the Automotive sector to general IP aspects with the article on a recent judgment from China concerning data ownership. Data ownership is not just a crucial aspect of future mobility and, therefore, for the Automotive sector but also a key for other data driven business models. The highlighted case brought to you by our Chinese IP team concerned an anti-unfair competition dispute brought before the Hangzhou Cyber Court in the PRC.

Subsequently, our London IP team reports on a trademark case based on internet advertising in a case not on the Court of Appeal’s judgment in “Argos Ltd v Argos Systems Inc”. The French IP team then describes the copyright situation in France for the protection of the famous Knoll “Tulip” chair on a case note of the Paris Court of Appeal’s decision.

Finally, our Spanish IP team gives an update on the recently published Spanish draft bill implementing the Trade Secrets Directive.

We hope you enjoy reading this latest issue of the Global IP Newsletter. We look forward to receiving your kind feedback.

Your Global CC IP Team

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On 1 June 2018, the Spanish Congress published a draft Trade Secrets Act to implement the Directive on the protection of trade secrets, choosing to articulate the implementation via a single regulation rather than modifying provisions of separate pieces of existing civil legislation such as the Unfair Competition Act or the Civil Procedure Act. The text (whose definitive version has not yet been approved) does not modify the existing regime on the protection of trade secrets completely but does entail some changes that should be taken into account.

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GERMANY:

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AUTONOMOUS DRIVING AND IP PROTECTION FROM A GERMAN LAW PERSPECTIVE

The field of autonomous driving is on a steep rise. Not only car manufacturers, but also software companies, who are not traditionally belonging to the automotive sector, are eager to lead the technological forefront, pushing the technological limits and laying the foundation for the next step in the evolution of mobile life. Against this background various partnerships and joint ventures have been set up or are in the course of being formed in order to develop the required underlying technologies. The generated innovative value and the significant investments require of course legal protection. Thus this article will shed light on the possibilities under German IP law (patents, copyrights, trademarks and know-how protection) and highlight some key aspect to keep in mind when seeking protection.

The possibilities of protection

Patents

Patent protection has always played an important role in the automotive sector since the invention of the first “motor car” by Carl Benz, filed on 29 January 1886. Therefore, it is not surprising that German companies (such as Bosch and Daimler) have filed most of the patents relating to autonomous driving (closely followed by Ford and Google). The owner of a patent is granted the exclusive right for 20 years (beginning from the application date) to commercialize (e.g. on its own or through licensing) the protected technology, Section 9 German Patent Act (“GPA”). In the field of autonomous driving, the spectrum of technologies to enable the driving process is broad. Mobile/antenna technologies, sensors, driving assistance systems or the electronics in the vehicle’s interior are only examples of the technologies that can become subject to a patent application (or, if public disclosure is not wanted, could be kept secret as know-how – see further below).

A particular “tricky” aspect is seeking patent protection for software used in the vehicle as software is by principle not patentable (Section 1 (2) no. 3 GPA). However, a (patentable) “computer-implemented invention” involves the use of a computer, computer network or other programmable apparatus, where one or more features are realized wholly or partly by means of a computer program. Therefore, the computer-implemented invention must be a novel and non-obvious solution to a technical problem with “real-world” effect. One of the more prominent examples of such patentable software probably is the automatic breaking system. Thus, in the field of autonomous driving, in particular those parts of the software might enjoy patent protection which directly control the movement and the reaction of the vehicle in the course of the driving process.

Key Issues

- Patent, copyright, trademark and know-how protection may be crucial to secure developments in the field of autonomous driving early on.
- However, IP protection requires in-depth assessment whether the prerequisites of the respective protection regime are met.
- The protection and licensing of data collected in the course of the autonomous driving process and its compliance with data protection laws will be of particular importance going forward.

SEP/FRAND

A particular aspect to be mentioned in this context are so-called standard-essential patents (“**SEP**”) resulting from the increasing standardization of certain key technologies such as wireless communication (e.g. Wifi, 3G, 4G, 5G). In the wake of this standardization, which is required to move forward technical development to mass marketability and worldwide adaptation, patent owners of such key technologies have formed standardization organizations (such as the European Committee for Standardization - CEN) to streamline the commercialization process by cross- and out-licensing and spread the technology among partners, competitors and across markets (nationally and internationally). However, being a monopolist means that owners of SEP are required by law grant licenses to third parties, who wish to use the technology, at Fair, Reasonable and Non-Discriminatory (“**FRAND**”) license terms.¹

In view of the importance of existing SEP such as wireless communication for autonomous driving and the necessity of further (international) standardizations, SEP/FRAND will play an increasingly important role in the future. However, as FRAND notifications and negotiations have been coined by rather complex steps to be followed ((i) infringement notification by SEP owner, (ii) willingness of the user of the SEP to conclude a license, (iii) FRAND-offer by the owner, (iv) acceptance of offer or issuing counteroffer) and sometimes incoherent case law by German courts, a thorough legal assessment of the specific facts of the case is always crucial.

Copyrights including database protection

When it comes to software used in the autonomous driving process, copyright protection may be the way to go as it does not require any registration/public disclosure. The scope of protection includes the source code and the object code (binary code), but not the functionality of the program or software, Section 69a (1) German Copyright Act (“**GCA**”). In addition, the Graphical User Interface (GUI) may be protected if the graphical appearance represents an original work of authorship.

When relying on external software developers, car manufacturers and other stakeholders should ensure to acquire exclusive use rights to freely exploit and sublicense the developed software (or parts of it) to its collaboration partners. Given the increasing importance of software applications in the automotive sector, proper license monitoring especially with respect to Open Source Software – pieces of software freely usable, but which often can only be used if specific license terms are observed - is crucial to avoid indeliberate copyright infringements of third-party rights.

Another aspect of copyright protection is the protection of data bases *sui generis* in accordance with Section 87a *et seq.* GCA. Other than Section 4 GCA, which is tied to the more “traditional” originality test of the database as copyrighted work, database protection *sui generis* aims at the protection of the financial investment in its creation made by the manufacturer against exploitation by third parties without permission. Especially the tremendous sets of data accumulated in the driving process and their subsequent use for the control of the car (and may be other services and purposes as well) will be the source for the creation of valuable databases.

1. For further details, please refer to our 18th edition of our Global IP Newsletter.

Trademarks

Building a certain reputation for the products involved in the autonomous driving will require seeking trademark protection (via a trademark registration) for any product or company names at an early stage of development. Having a strong brand may further strengthen market recognition and might provide the required “edge” over competing products.

Know-how

If a company decides against filing a patent application, the development may be kept secret as know-how. However, this applies even if the technology is patentable. However, there may be commercial reasons for keeping the invention secret such as the (non-)exploitation of the development without competitors’ knowledge or general doubts regarding its patentability in the filing process.

Thus, one of the advantages of know-how protection is the lack of any requirement for (public) registration or of any maximum term of protection. Rather, the technology may be protected as know-how indefinitely as long as the information remains secret. However, as soon as the information is disclosed into the public domain (e.g. through leaks or cyber attacks), protection is lost.

Further, the new EU know-how protection regulation has increased the applicable standards for the kind of security measures required to be taken by the owner. Whereas a (subjective) intention of the owner of the know-how to keep secrecy was sufficient so far, the new regulation requires the information to be “subject to reasonable steps under the circumstances [...] to keep it secret”, i.e. objectively appropriate security measures. But at this point it is still not clear what kind of security measures these “reasonable steps” might encompass. Thus, interpretation of the statute by the courts will be necessary, leading to a certain degree of legal uncertainty for the time being.² Such reasonable steps can, for example, be the conclusion of non-disclosure agreements as well as physical and non-physical security measures, depending on the specific facts of the case.

However, in general the EU know-how protection clearly strengthens the position of right holders since it clearly defines the consequences of an infringement (cease and desist, damages) and provides for an inspection right of the right holder in *in camera* proceedings.

Autonomous Driving Is data Driven

The processing of data is a prerequisite for autonomous vehicles. The car constantly collects and stores data about the car’s surroundings, the driver’s routes and other pieces of information to control the steering movement and even initiate rescue measures if needed. First steps towards a respective legal framework is the EU-wide emergency system “eCall”, which came into effect in April 2018. The EU regulation obliges manufacturers to implement a system to launch an emergency call to local

2. For further information on protection by know-how and new legislative developments please refer to our 18th edition of our Global IP Newsletter.

authorities in case of an accident, transmitting data like the location of the accident, the car's ID, the time of the accident and the number of passengers. Other legislation relates to a new mandatory "Black Box", which collects various data for the purpose of the clarification of liability issues in case of a crash (Section 63a German Road Transport Law)

While stakeholders including car manufacturer claim that any data accumulated through connected and autonomous cars is currently used solely to enable the driving process, the commercial value of such data is - in the wake of the upcoming "data economy" and in particular "Big Data" applications – more than obvious. The monitoring of the driver's (and passengers') habits, their driving style, even their favorite restaurants or coffee shop may lay the foundation not only to provide practical support (e.g. repair services, technical recommendations), but also highly-personalized advertising.

Although the accumulation of valuable data and the purpose of its use will clearly be subject to data protection concerns (to which legislators will need to find appropriate responses going forward), it should be noted that a proper "right in data" does currently not exist. However, the protectability of data is widely recognized, enabling stakeholder to conclude license agreements stipulating rights and obligations in respect to the licensed data. Ownership on any data is initially allocated to the individual or company creating the data (so-called "Skripturakt"). Finally, data can be subject to know-how protection which is of particular importance for any data that might be further commercialized in the future, provided that such commercialization is in compliance with data protection laws (see above) – an assessment that should be made with the aid of a data protection expert.



ITALY:

Andrea Andolina, LL.M. & Monica Riva, Ph.D

DESIGN (AND THE “REPAIR CLAUSE”) IN THE AUTOMOTIVE SECTOR: THE “WHEEL RIMS DILEMMA” PENDING BEFORE THE COURT OF APPEAL OF MILAN

Design is a fundamental feature that contributes to every car’s success. Not surprisingly, automotive firms invest immensely to develop and to create ever-better designs for their models, struggling to combine technical functionality with aesthetic value: a car need not only perform well, it must also be attractive. Shapes, colours, sizes, lines and details all work together to distinguish a car from others available in the market and to capture consumers’ preferences. Therefore, automotive firms frequently apply for registered designs to protect the appearance of their models.

Component part of a complex product: the “repair clause”

A product as complex as a car is made up of various and different parts and components, as is its appearance (*i.e.*, the design). Sooner or later, each of the parts and components must be repaired, because of defects or simple wear and tear. A car owner can either ask the manufacturer or an independent spare-part supplier to provide the repair. But what if the component to be repaired is also a component of a protected design? If every spare-part supplier is to be authorised by the car manufacturer, which holds the rights on the design, then a car manufacturer would have monopoly power in the downstream spare-part market.

To prevent such market distortion, the European Union Member States have introduced the mandatory exception of the “repair clause”, whereby the exclusive rights on the design do not apply *“for a design which constitutes a component part of a complex product used... for the purpose of the repair of that complex product so as to restore its original appearance”* (Article 110 of Regulation (EC) No. 6/2002; a similar clause was already in Article 14 of Directive (EC) No. 71/1998; in Italy the “repair clause” is provided by Article 241 of Legislative Decree 30/2005).

The wheel rims ‘dilemma’ in Italy: the Acacia case before the Court of Appeal of Milan

Wheel rims are among the most common spare parts sold by suppliers independent from original equipment manufacturers (“**OEM**”). In recent years, car manufacturers have started a number of legal actions against suppliers of such non-OEM wheel rims, in Italy as well as in other European countries.

Key Issues

- Registered designs are a strategy to get IP protection for aesthetic valuable parts of a car.
- Design law foresees a “repair clause” limiting the scope of protection for registered designs.
- The wheel rims market is highly competitive and suppliers of non-OEM wheel rims face scrutiny by OEM holding design rights.
- In the Acacia case, the Court of Milan in 2015 held that the repair clause would not apply to wheel rims. However, the latest ruling by the CJEU might lead to a reversal in the pending proceeding before the Court of Milan.

In Italy, the *Acacia* case, which commenced before the Court of Milan in 2015, involves a claim by a leading car manufacturer against an independent supplier, alleging that the wheel rims sold by the supplier – identical to the OEM rims – infringe the registered designs on the shape of the car in its entirety. In the first instance, the Court of Milan upheld the plaintiff's claim and declared the infringement of the registered designs, stating that the "repair clause" cannot be applied to wheel rims. According to the Court of Milan, the wheel rim cannot be considered a mere replacement, but is an accessory instead, because it has an autonomous aesthetical gradient (*vis-à-vis* the entire car) and answers to different needs than the mere replacement, such as upgrade or customisation by the consumer. Furthermore, the transitory and exceptional nature of the "repair clause" would exclude a broad interpretation able to cover accessories as well.

The supplier filed an appeal against the first instance ruling. The proceedings are still pending before the Court of Appeal of Milan, after having been stayed for a preliminary reference to the Court of Justice of the European Union ("CJEU") on the scope of applicability of the "repair clause". In the CJEU cases C-397/2016 and C-435/2016 (judgment of 20 December 2017), the CJEU stated that:

- (a) there is no need for a strict interpretation of the "repair clause" because the transitory applicability of the clause is subject to a condition (a legislative amendment) which has not occurred yet; furthermore, the "repair clause" will be interpreted according to its purpose which is *"to avoid the creation of a captive market in certain spare parts and, in particular, to prevent a consumer who has bought a long lasting and perhaps expensive product from being indefinitely tied, for the purchase of external parts, to the manufacturer of the complex product"*;
- (b) the wheel rim can be classified as a 'component part of a complex product', insofar as it is *"a component part of a complex product which a car constitutes, without which that product could not be subject to normal use"*;
- (c) the "repair clause" is applicable only for the purpose of repairs: *"any use of a component part for reasons of preference or purely of convenience, such as, inter alia, the replacement of a part for aesthetic purposes or customisation of the complex product is therefore excluded from the "repair clause"*;
- (d) the aim of a repair is to restore the original appearance and, therefore, *"the "repair clause" applies only to component parts of a complex product that are visually identical to original parts"*;
- (e) although independent suppliers *"cannot be expected to guarantee, objectively and in all circumstances, that the parts they make or sell ... are, ultimately, actually used by end users in compliance with those conditions"*, they are under a *"duty of diligence as regards compliance by downstream users"*; accordingly, independent suppliers must take measures such as (i) clearly informing customers that they do not hold the design incorporated by the component part and that the part should be used for the purposes of the repair; (ii) using contractual mechanisms that ensure that downstream users do not intend to use the component parts unlawfully; and (iii) refusing to supply the component part if they are or should reasonably be aware that the downstream users will not comply with the above conditions.

Conclusions

The decision of the Court of Appeal in Milan, following the preliminary reference at the CJEU, is expected in the next few months. We would reasonably expect that the Court of Appeal will take into account the CJEU's position and therefore that the first instance ruling of the Court of Milan in the *Acacia* case will be reversed at least in part.

In fact, the first instance ruling appears inconsistent with the CJEU's refusal to interpret the "repair clause" strictly. Moreover, the Court of Milan's finding that wheel rims are never replacements is in contrast with the CJEU's ruling that wheel rims can be deemed replacements in the circumstances that fulfil the conditions that (i) the purpose is to repair, by replacing the OEM wheel rims with identical wheel rims, and (ii) the independent spare-part supplier acts with the due diligence in relation to the actions of the down-stream purchasers.



AUSTRALIA:

Jack Oakley

“USER PAYS!” – RECREATIONAL VEHICLES AND THE USER PRINCIPLE IN AUSTRALIAN LAW

Since 2015, *Winnebago Industries Inc v Knott Investments Pty Ltd (No 4)* (2015) 241 FCR 271; [2015] FCA 1327 stands as authority for the proposition that, where passing off has been established and conventional methods of calculating damages are not available, a plaintiff is entitled to recover a reasonable sum from a defendant who has wrongfully used the plaintiff's property, even where no actual loss to the plaintiff (or benefit to the infringer) can be established. The reasonable sum payable under this so-called “user principle” is to be assessed by reference to the “use value” of the good in question, often conceptualised in terms of what the reasonable rent, licence fee, hiring fee or royalty payable would be for that use. The user principle, being restitutionary in nature, may be (and in some cases has been) regarded as an exception to the general rule that damages in tort are compensatory, and its acceptance by Australian courts is noteworthy.

Case History & Summary

The dispute between Winnebago Industries Inc (“**Winnebago**”) and Knott Investments Pty Ltd (“**Knott**”) began in 1985 when Winnebago (a world-renowned recreational vehicle (“**RV**”) manufacturer) discovered that Knott (a much lesser-known RV manufacturer incorporated in Australia) was selling RVs using Winnebago's brand and insignia. Winnebago did not, at that time, sell RVs in Australia. However, its significant presence in US, UK and Canadian markets contributed to its reputation in Australia. Critically (for the purposes of this case), Winnebago elected not to commence proceedings enforcing its intellectual property rights until 2010. Notwithstanding the delay, at first instance, his Honour Justice Foster of the Federal Court of Australia held that Knott had engaged in passing off through their use of the Winnebago brand to market and sell RVs. As a consequence, Knott were restrained from continued use of the Winnebago brand.

However, on appeal, it was held that Knott had itself built up considerable goodwill and reputation in the Australian market, one distinct from that of Winnebago, and that it would be “unreasonable or plainly unjust” to restrain Knott's use of the Winnebago brand as a result of the extent to which Knott had contributed to its reputation in Australia. Accordingly, the Full Court of the Federal Court of Australia varied the injunctive relief granted by Justice Foster, ordering instead that any future use of the Winnebago brand by Knott was to be subject to the inclusion of a disclaimer on each RV that clearly distinguished Knott-manufactured RVs from Winnebago-manufactured RVs. In addition, whilst the finding at first instance in respect of passing off was upheld, the Full Court declined to order an account of profits, primarily due to Winnebago's delay in commencing proceedings (and the inherent difficulty in calculating, after 25 years, “what profits [had] been made by reference to sales that could be seen to be produced by trading on [Winnebago's] reputation and sales produced by Knott trading on its own reputation”).

Key Issues

- Pursuant to the “user principle”, even in circumstances where no loss to the plaintiff or benefit to the infringer can be established on the facts of any given case, a plaintiff may still be entitled to recover a reasonable sum from a defendant who has wrongfully used the plaintiff's property. In saying that, the availability of the remedy appears to be restricted to situations in which conventional methods of calculating damages are unavailable.
- Damages under the user principle are calculated according to the “use value” of the property, assessed by reference to a hypothetical bargain that each party, acting reasonably as willing licensor and licensee, would have struck given their respective commercial circumstances at the time the rights were infringed. In this regard, the Court will carefully consider expert evidence adduced by the parties and witnesses' real-world experience relative to the bargaining / licensing arrangements in question will be a powerful consideration.

On remittal for assessment of damages, in the absence of any other basis for assessment (given Winnebago's lack of trade in Australia), Winnebago elected to seek damages on the basis of the user principle, by reference to what a reasonable royalty or licence fee would have been had Knott obtained the relevant licence from Winnebago in lieu of passing off. This is, of course, contrary to the usual reference point for assessing compensatory damages, namely the loss suffered by the plaintiff or the benefit obtained by the defendant. In this regard, his Honour Justice Yates (the new first instance Judge) rejected arguments advanced by Knott that the Court was precluded from applying the user principle for want of actual damage or loss to Winnebago. In doing so, his Honour likewise rejected the argument that to do so would result in a "windfall" for Winnebago and remarked that "a reasonable royalty or licence fee is no more than compensation referable to that which was taken from it."

In assessing the damages payable by Knott, Justice Yates considered expert evidence led by both parties regarding what fee would have been negotiated had the parties entered into a licence agreement on 14 October 2004 (being six years prior to commencement of proceedings at first instance, a condition imposed by the Full Court due to Winnebago's delay). In doing so, his Honour drew distinctions between market conditions in Australia and the US and the likely impact such factors would have had on the negotiation of a reasonable licence fee, and concluded that "the bargain that, in all likelihood, would have been struck had negotiations been carried out as at 14 October 2004" would be a royalty rate of 1% (i.e. the figure contended by Knott, as opposed to the 4-5% rate contended by Winnebago).

Further Application of the User Principle in Oceania

Regrettably, since *Winnebago v Knott*—perhaps due to the unique circumstances in which a claim for damages on this basis can properly be said to arise¹—the user principle has received limited attention in Australian courts. Of the relatively few citations available of Justice Yates' decision, three noteworthy decisions deserve mention.

The first is *Dallas Buyers Club LLC v iiNet Ltd (No 5)* [2015] FCA 1437, a case heard and determined in the two weeks following the delivery of Justice Yates' judgment in *Winnebago v Knott*. In that case, the applicant, Dallas Buyers Club LLC ("**DBC**"), had successfully obtained (by way of preliminary discovery) details of account holders of certain internet service providers whom had allegedly uploaded and distributed (through an online file-sharing platform) the film "Dallas Buyers Club", infringing DBC's copyright in the process. However, before releasing the account holders' details to DBC, the Court imposed a limitation on any monetary demand that DBC could make of those account holders; specifically, no more than the retail price of a purchased copy of the film and a proportion of DBC's unrecoverable costs of the preliminary discovery application. Counsel for DBC sought to re-open the case to remove this limitation on recovery on the basis that, as in *Winnebago v Knott*, the infringing parties should pay for what they had taken (i.e. damages calculated by reference to a notional licence fee that DBC would have charged for the non-exclusive worldwide right to distribute the film).

1. Cf. the reliance placed on *Winnebago v Knott* by a patentee of an oral contraceptive drug when seeking damages against a generic competitor in *Bayer Pharma Aktiengesellschaft v Generic Health Pty Ltd* [2017] FCA 250. Although the question was ultimately not required to be decided, her Honour Justice Jagot queried the applicability of the user principle in circumstances where both the patentee and the generic competitor competed in the same (Australian) market and damages could be calculated on a conventional basis by reference to lost profits.

Unfortunately (at least, for the purposes of this article), for a number of discretionary reasons, his Honour Justice Perram refused leave to re-ventilate the issue. In addition, without formally deciding the question, Justice Perram, drawing upon binding appellate authority in *Aristocrat Technologies Australia Pty Ltd v DAP Services (Kempsey) Pty Ltd (in liq)* (2007) 157 FCR 564; [2007] FCAFC 40 (“**Aristocrat**”), drew a distinction between the case before him (a copyright infringement case) and the application of the user principle in *Winnebago v Knott* (as noted above, a case concerning passing off). Justice Perram considered (as had Justice Yates before him) that *Aristocrat* stood as binding appellate authority for the fact that the user principle does not extend to copyright cases, a matter which would have proved very difficult for DBC to overcome even if it had been granted the requisite leave to re-open its case.

Interestingly, this was not the approach adopted in the second noteworthy decision, *Larrikin Music Publishing Pty Ltd v EMI Songs Australia Pty Ltd and Others (No 2)* [2010] FCA 698 (“**Larrikin**”). In that case, his Honour Justice Jacobson held that the well-known Men at Work song, “Down Under”, infringed copyright in a similarly popular Australian nursery rhyme “Kookaburra (Sits in the Old Gum Tree)”. However, Justice Jacobson awarded damages not for copyright infringement but on the basis of contraventions of the *Trade Practices Act 1974* (Cth) in respect of misrepresentations made by the EMI defendants to collecting societies to the effect that “Down Under” did not infringe the copyright in any other work and that the composers and recording companies were entitled to all of the publisher’s and writer’s share of income derived from the track. As it was common ground between the parties that the loss or damage that followed the earlier finding of copyright infringement was to deny the plaintiff an appropriate percentage of the performance and mechanical income derived from the exploitation of “Down Under”, Justice Jacobson assessed damages by reference to a “hypothetical bargain that would have been struck between a willing licensor and a willing licensee of the copyright in Kookaburra”. By conceptualising the matter as such, his Honour appears to have circumvented earlier binding authority in *Aristocrat* (pausing to note that *Larrikin* does not actually refer to *Aristocrat*), essentially extending the user principle to a case concerned with copyright infringement.

The third and final noteworthy decision (which cites both *Winnebago v Knott* and *Larrikin*) is a judgment of the High Court of New Zealand in *Eight Mile Style, LLC v New Zealand National Party* [2017] NZHC 2603, where it was alleged that the New Zealand National Party (“**NZNP**”) had infringed the plaintiff’s copyright in world-renowned rapper Eminem’s musical work “Lose Yourself” through their unauthorised use of a ‘sound-alike’ work in their political campaign advertisements.

Though the NZNP’s initial intention was to use Eminem’s “Lose Yourself”, they instead opted for a substantially similar adaptation of the track entitled “Eminem Esque”, after concerns were raised about a perceived affiliation with the rapper. Assurances were sought and received from Beatbox Music—the licence holder of “Eminem Esque” in Australia, New Zealand and Fiji—that “the music [did] not infringe on copyright and [was] free to be used for production purposes”. A licence was then obtained by NZNP for the use of the track.

Shortly after the advertisement was aired, comparisons were drawn between the featured “sound-alike” track and Eminem’s original. The plaintiff (owner of 50% of the musical work and exclusive licensee in respect of the other 50%) subsequently wrote to the NZNP complaining of their unlicensed use of “Lose Yourself”. Following detailed and considered discussion of the application of (and history behind) the user principle, her Honour Justice Cull summarised (at [337]-[345]) what she viewed to be nine key principles emerging from the authorities, which, for convenience, are set out in full below (emphasis in original):

The hypothetical bargain

[337] Where the copyright owner cannot establish lost profit or a normal royalty fee, damages are assessed under the user principle. This principle proceeds on the basis of a **hypothetical bargain** where damages are assessed on the basis of what would have reasonably been charged at the time of infringement had the defendant acted lawfully and obtained permission.

Compensatory and restitutionary damages

[338] The user principle is not strictly compensatory in nature as it is not remedying the plaintiff’s financial loss. Rather, the user principle recognises the infringement that has invaded the monopoly a plaintiff has on their intellectual property rights and the defendant’s gain in this infringement. It is therefore **both compensatory and restitutionary in nature**.

Willing parties

[339] The exercise of determining the hypothetical bargain assumes that the parties are a **willing licensor and licensee**, with their respective strengths and weaknesses within the commercial context that existed at the time. It is irrelevant in assessing quantum that the parties would not have in fact agreed to make a deal.

Extent of copying

[340] The subject matter of the hypothetical licence will be what the defendant actually used, including the **extent of copying** and its relationship with the copyrighted work.

Lack of quality control

[341] The bargain can take into account that the licensor did not have the opportunity to include terms related to **quality control**, if those are commonly included provisions.

Evidence is a guide only

[342] It is for the plaintiff to adduce evidence which will guide the Court on a **reasonable** charge or licence. That evidence may include the practice in the relevant trade, expert opinion, the profitability of the invention, licence competition in the market, the exclusivity of the licence of practice of the plaintiff, and any other factor which assists the Judge. However, **evidence is a guide only** and the ultimate process in determining quantum is one of judicial estimation.

Caution with comparable licences

[343] Comparable licences and the rates of royalty can assist in the assessment of quantum. However, **comparable licences must be approached with caution** and be relevant to the hypothetical bargain in question.

Settlement agreements are irrelevant

[344] **Settlement agreements are irrelevant** when making comparisons, as they are designed to prevent litigation rather than fixing a royalty rate.

Level of compensation

[345] The English and Welsh authorities show a divergence of views between erring on the side of generosity to the claimant (*Ludlow Music Inc v Williams* [2002] EWHC 638 (Ch)), or erring on the side of under-compensation (*Blayney v Clogau St David's Gold Mines Ltd* [2002] EWCA Civ 1007), the latter of which is the authoritative approach in England and Wales.

In the result, Justice Cull held that there were minimal discernible differences between “Eminem Esque” and “Lose Yourself”, such that it was objectively similar and amounted to a copy of the original. Her Honour further held that, by communicating that copy to the public without a licence, the NZNP had infringed the plaintiff’s copyright in the track. On this basis, Justice Cull awarded damages to the plaintiff under the user principle of NZ\$600,000 plus interest (preferring the plaintiff’s evidence in the process, due to their expert witness’ “direct negotiating experience with international high value musical works and iconic artists”). Her Honour declined to award additional damages on the basis that infringement was not reckless or contumelious of the plaintiff’s rights (having been predicated upon the receipt of professional, commercial and media advice).

Concluding thoughts

The decision in *Winnebago v Knott* has opened the door for further development and application of the user principle in Australia, though appropriate occasions for relying on the principle may be few and far between. Whilst domestic authority appears to presently limit the application of the user principle to cases concerning passing off, creative judgements such as *Larrikin* may result in its application elsewhere (and, had leave to re-agitate the issue been granted in *Dallas Buyers Club*, a similar result may have ensued). Indeed, the recent extension of the principle “across the Tasman” following the decision in *Eight Mile* can only be regarded as encouraging insofar as the development of the principle in the region is concerned.

LINK DIRECTORY:

1. Winnebago Case (Liability): <http://www.judgments.fedcourt.gov.au/judgments/Judgments/fca/single/2012/2012fca0785>
2. Winnebago Case (Full Court Appeal on Liability): <http://www.judgments.fedcourt.gov.au/judgments/Judgments/fca/full/2013/2013fcafc0059>
3. Winnebago Case (Full Court Determination on Relief): <http://www.judgments.fedcourt.gov.au/judgments/Judgments/fca/full/2013/2013fcafc0117>

4. Winnebago Case (Assessment of Damages):
<http://www.judgments.fedcourt.gov.au/judgments/Judgments/fca/single/2015/2015fca1327>
5. Dallas Buyers Club Case: <http://www.judgments.fedcourt.gov.au/judgments/Judgments/fca/single/2015/2015fca1437>
6. Aristocrat Case: <http://www.judgments.fedcourt.gov.au/judgments/Judgments/fca/full/2007/2007fcafc0040>
7. Larrikin Case: <http://www.judgments.fedcourt.gov.au/judgments/Judgments/fca/single/2010/2010fca0698>
8. Eight Mile Case: <https://forms.justice.govt.nz/search/Documents/pdf/jdo/31/alfresco/service/api/node/content/workspace/SpacesStore/1d6ea148-11c2-4174-a105-391a62667d39/1d6ea148-11c2-4174-a105-391a62667d39.pdf>
9. Oral Contraceptive Case: <http://www.judgments.fedcourt.gov.au/judgments/Judgments/fca/single/2017/2017fca0250>



PEOPLE'S REPUBLIC OF CHINA/HONG KONG:

Jill Ge & Ling Ho

HIGH PROFILE CASE BRINGS SPOTLIGHT ONTO DATA OWNERSHIP IN CHINA

A recent judgment has focused attention on the fast-moving arena of data ownership, showing how crucial it can be for commercial advantage. The case concerned an anti-unfair competition dispute brought before the Hangzhou Cyber Court, one of the specialised courts set up across the PRC to hear disputes relating to cyber security, data ownership and other related matters.

The plaintiff, Taobao Software Co. Ltd. ("**Taobao**"), which operates one of the largest e-commerce platforms in China, brought proceedings to defend its proprietary behavioural tracking mechanism, which allows Taobao to trace customer behaviour on the site and extract derivative data for onward transmission to vendors to help improve their services on the platform. Taobao charged its vendors RMB 900 (USD 132) for the service.

The defendant, Meijing Technology Co., Ltd. ("**Meijing**"), developed a rival platform called Gugu and solicited Taobao users to download Gugu in order to access Taobao's user data more cheaply than through Taobao. Meijing also provided technical services to the account holders, including remote login to vendors' computers to enable them to obtain Taobao's derivative data products independently of Taobao. Meijing earned commission for this service.

In court, Taobao sought an injunction to prevent Meijing's infringing technology as well as damages of RMB 5,000,000 (USD 730,000).

The Court considered how Taobao had collected and processed the personal data, referring to the requirements on protection of personal information under the PRC Cybersecurity Law. Taobao had obtained users' consent in collecting the data and had clearly informed them that it would be used for the purposes of monitoring their online behaviour, which was in conformity with the law. In addition, the personal data was anonymised during processing so that specific individuals would not be identified. As a result, the Court found that Taobao's actions would not impact data users adversely.

The data in question was derived through data analytics, during which the data collected by Taobao was processed and aggregated. Once processed, the Court said the derivative data should be regarded as different from the original information and would no longer be considered as personal data. The Court agreed that Taobao had spent a significant amount of time and effort in developing the derivative data products and had a reasonable expectation of making a profit. The Court therefore recognised the proprietary interest of Taobao in the derivative data products.

Key Issues

- Data ownership can be crucial for commercial advantage.
- But it can also lead to liability for damages if the development and use of a rival platform constitutes unfair competition.
- Once the data is collected and processed, it is regarded as different from the original information and no longer considered personal data.

Article 2 of the PRC Anti-Unfair Competition Law defines unfair competition as any business activities that disrupt competition in the market and infringe the rights and interests of other businesses. The Court relied on this catch-all provision and ruled that the defendant's activities constituted unfair competition. In doing so, the Court awarded Taobao damages of RMB 2,000,000 (USD 292,000), taking into account the profits Meijing had made in its infringing activities as well as Taobao's legal and other expenses to put a stop to the infringement.

The full text of the judgment (in Chinese) can be found under <http://www.ciplawyer.cn/cpwxfbz/139946.jhtml?prid=170>.



UNITED KINGDOM:

Sean Wood

THE SCOPE OF LIABILITY FOR INFRINGEMENT WHEN TARGETING CONSUMERS IN OTHER JURISDICTIONS

On 9 October 2018, the Court of Appeal of England and Wales delivered its decision in *Argos Limited v Argos Systems Inc.* At first instance, the judge held that there was insufficient evidence to establish that Argos Systems Inc. had targeted consumers in the UK by displaying adverts relevant to persons living in the UK on its website and Argos Limited's claim for infringement failed. On appeal, Lord Justice Floyd ("**Floyd LJ**") overturned the judge's decision in respect of targeting, but nevertheless found that Argos Limited's claim of trade mark infringement had not been satisfied.

Background

The appellant, Argos Limited ("**Argos UK**"), appealed the judge's decision at first instance that the respondent, Argos Systems Inc. ("**Argos US**"), had not used the sign "ARGOS" (i) to target consumers in the UK, and (ii) in a manner which infringed Argos UK's rights by taking an unfair advantage of the reputation of Argos UK's EU trade mark.

Argos UK is a large retailer of consumer products, which operates largely in the UK and Ireland. Argos UK has been trading under the name "ARGOS" since 1973. In January 1996, Argos UK registered the domain name www.argos.co.uk. Argos UK owns a number of UK and EU trade marks for the "ARGOS" mark, including one registered in April 2006 in respect of retail and related services.

Argos US trades in computer aided design systems for the design and construction of commercial and residential buildings. Argos US was incorporated in the USA in 1991, and its business is restricted to North and South America. In January 1992, prior to the registration of www.argos.co.uk, Argos US registered the domain name www.argos.com.

During the period 2008 to 2015, Argos US participated in Google's AdSense advertising programme. This involved Argos US providing advertising space on its website. In turn, Argos was paid by Google for the number of advertisements that were clicked on, and on the number of times that advertisement was automatically downloaded, by consumers who visited its argos.com website.

Throughout the period that Argos US participated in Google's AdSense advertising programme, a substantial number of internet users based in the UK and Ireland had mistakenly accessed Argos US' website, rather than visiting Argos UK's website. As a result, Argos US was paid by Google for the traffic which the argos.com website received, as this resulted in consumers incidentally downloading the advertisements displayed on its website and/or clicking on those advertisements.

Key Issues

- The Court of Appeal considered whether a company in the US had targeted consumers in the UK by use of a domain name which comprised the appellant's trade mark and use of that trade mark as sign on respondent's website.
- The Court held that the key question is whether the average consumer in the UK would consider that the website is targeted 'at them'.

In May 2014, Argos UK issued a letter before action. Since September 2015, Argos US ceased displaying any advertisements on its website.

The basis of the appeal

Argos UK contended that, during the period 2008 to 2015, Argos US' use of the sign "ARGOS" was identical to that of its EU trade mark, and that the income that Argos US received from Google as a result of UK consumers mistakenly visiting argos.com instead of argos.co.uk, took an unfair advantage of the reputation of Argos UK's EU trade mark. Argos UK contended that this was an infringement of the rights conferred upon it by Article 9(1)(c) of the Community Trade Mark Regulation (EC) No 207/2009 (the "**CTM Regulation**").¹

It was not disputed by Argos US that Argos UK's EU trade mark "ARGOS" had the requisite reputation in the UK. Argos US submitted, however, that it was not liable under Article 9(1)(c) of the CTM Regulation, as it did not in the UK.

Targeting of consumers in the UK

Floyd LJ noted the territorial limitations of trade marks, in that a third party can only be subject to trade mark law insofar as it is dealing in the jurisdiction of the trade mark in question. In order for Argos UK to claim that its EU trade was infringed by Argos US, Argos UK needed to establish that Argos US was using the sign "ARGOS" in the course of trade in the relevant territory (e.g. the UK or EU).

The Court of Appeal considered the principles set out by Lord Justice Kitchen ("**Kitchen LJ**") in *Merck v Merck Sharpe & Dohme*² in respect of targeting of consumers by means of advertisements placed on a website. Kitchen LJ specified that whether an advertisement of a foreign trader constitutes use of the trade mark in the UK, depends on whether the advertisement targets consumers in the UK. The fact that a website is accessible from the UK is not sufficient. The question is whether average consumers in the UK would consider that the advertisement is targeted at them. Further, evidence of subjective intention is a relevant, and possibly (where the objective position is unclear and finely balanced) determinative consideration in deciding whether a trader's activities, when viewed objectively from the perspective of the average consumer, are targeted at the UK.

At first instance, the judge concluded that the proportion of UK visitors to Argos US' website who would have regarded the site as being directed at them was not such as to warrant a conclusion that it was targeted at them. Floyd LJ overruled this part of the decision and held that the section of the argos.com website which included advertisements to third party goods and services would be understood by the average consumer as directed at them to the extent that it carried advertisements of obvious interest to UK consumers.

1. The CTM Regulation was the legislation applicable to the relevant period from 2008 to 2015. The CTM Regulation has since been replaced by the EU Trade Mark Regulation (EU) 2017/1001 (the "EUTM Regulation"). Parallel provisions to Article 9(1)(c) of the CTM Regulation are now replicated in Article 9(1)(c) of the EUTM Regulation.

2. [2017] EWCA Civ 1834

The requirement of a link

Floyd LJ cited the cases of C-408/01 *Adidas-Salomon AG v Fitness World Trading Ltd*³ and C-252/07 *Intel Corp Inc v CPM United Kingdom Ltd*⁴ as authority for the requisite link that is required to be established under Article 9(1)(c) of the CTM Regulation between the sign complained of and the mark with a reputation.

Floyd LJ overruled the judge's decision at first instance that the relevant link was not formed. Floyd LJ held that there was a sufficient link, as internet users accessed Argos US' website as a result of Argos UK's reputation in the mark "ARGOS" which was wholly comprised in the corresponding domain.

Unfair advantage

Floyd LJ stated that a literal reading of C-487/07 *L'Oreal v Bellure*⁵ would prescribe that any advantage taken by a third party of a trade mark with a reputation would be unfair if the third party seeks, by use of a similar sign, to ride on the coat tails of the trade mark and does so without paying any financial compensation. The subsequent decision of the Court of Appeal in *Whirlpool Corp v Kenwood Ltd*⁶, however, specified that a mere commercial advantage is not sufficient to render a finding of unfair advantage. Floyd LJ held that if unfair advantage was established by a mere commercial advantage, this would render the word "unfair" as meaningless. Accordingly, Floyd LJ upheld the judge's decision at first instance in respect of a finding of an unfair advantage not being satisfied. Floyd LJ stated that there was no reason why, as a matter of fairness that Argos US should be required to adopt a less advantageous or more burdensome way of dealing with the unwanted traffic to its website.

Comment

The Court of Appeal's decision highlights the territorial scope of trade marks. In order for a claimant to assert its trade marks, it must be able to establish that a defendant has targeted consumers within the territory where the claimant's mark is protected. The nature of the internet provides vendors with a global reach, in which a vendor may actively or inactively target consumers across the globe. The mere ability for a consumer to access a domain name or website bearing the mark in question, will not, in itself, be sufficient to establish 'targeting' in the UK. The Court of Appeal's decision makes it clear that the key consideration in respect of targeting is whether the average consumer will think that an advertisement is targeted 'at them' (e.g. through adverts resulting from their location or browsing history). This does not, however, preclude the subjective intentions of the person responsible for the advertisement from being taken in account when a court is making an overall assessment of targeting.

The Court of Appeal also further clarified the scope of the CJEU's decision in *L'Oreal v Bellure*. From the Court's decision in *Whirlpool*, it is clear that a mere commercial advantage alone will not be sufficient for a finding of an unfair advantage.

3. [2004] Ch 120

4. [2009] RPC 15

5. [2010] RPC 1

6. [2009] EWCA Civ 753

FRANCE:

Frédérique Fontaine

WHEN THE FAMOUS TULIP CHAIR OF KNOLL IS FOUND TO BE NOT PROTECTED BY COPYRIGHT IN FRANCE

On 13 April 2018, the Paris Court of Appeal (*Cour d'Appel de Paris*) rendered an interesting decision regarding the application of Article 2(7) of the Berne Convention of 9 September 1886 for the Protection of Literary and Artistic Works¹.

Said Article 2(7) provides for an important limitation to the principle of “national treatment” set forth in the Berne Convention, pursuant to which works originating in one of the Contracting States of the Convention must be given the same protection in each of the other Contracting States as the latter grants to the works of its own nationals.

Indeed, pursuant to Article 2(7), it is a “*matter for legislation in the countries of the Union to determine the extent of the application of their laws to works of applied art and industrial designs and models, as well as the conditions under which such works, designs and models shall be protected*”. The end of Article 2(7) specifically deprives Union nationals who, in the country of origin of their work, enjoy only the protection granted in respect of designs and models of the right to bring proceedings based on copyright in the countries of the Union which, like France does, allow cumulation of protection.

In the case at hand, Knoll Inc. (“Knoll”), a U.S. company, sued a French company before the Paris Court of First Instance (*Tribunal de Grande Instance de Paris*), for the infringement of its copyright in the famous “Tulip chair” (which was created and disclosed in the United States by the designer Eero Saarinen, a U.S. national), as well as unfair competition.

As a defence, the defendant raised the fact that Knoll could not claim copyright protection in France as the “Tulip chair” was not protectable under copyright law in the U.S. Indeed, under U.S. law, only features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects of an article, can enjoy copyright protection². Consequently, if the chair was to be considered as exclusively utilitarian, without any separable aesthetic elements, it had to be excluded from copyright protection in the U.S. and, therefore, in France too.

The French judges first observe that “*the integral form of a chair cannot be considered as a pictorial, graphic or sculptural work since it is closely linked to its function*”, even if “*guided by the principles of modern design chosen by Eero Saarinen*”, which can be

Key Issues

- The Berne Convention sets out the principle pursuant to which work originating in one of the Contracting States of the Convention must be given the same protection in each of the other Contracting States as the latter grants to the works of its own nationals.
- However, there is an important limitation to such principle for works of applied art. Indeed, Union nationals who, in the country of origin of their work, enjoy only the protection granted in respect of designs and models, are deprived of the right to bring proceedings based on copyright in the countries of the Union which, like France does, allow cumulation of protection.
- On such grounds, Knoll’s famous “Tulip” chair was found to be not protected by copyright in France, despite its presence in the permanent collection of the MOMA in New York City.

1. CA Paris, Pôle 5 chambre 2, 13 April 2018, n° 15/05833, SAS Knoll International and Knoll Inc. c/ SAS MTOP and Matrix International SRL

2. Jane C. Ginsburg, The whole is more public domain than the parts?: US copyright protection for works of applied art under Star Athletica’s Imagination Test.; *Star Athletica v. Varsity Brands*, 2017 BL 89682 (U.S. Mar. 22, 2017)

regarded as rather surprising considering the presence of the chair in the permanent collection of the MOMA in New York City.

Then, the French judges highlight the fact that no copyright registration was made for the Tulip model in the U.S., whereas designs and patents had been filed. They consider this as corroborating evidence that, in the mind of its creator, the Tulip model was to be protected by designs or patents only.

The judges thus confirm that Eero Saarinen's chair is not protectable by copyright in France and, pointing out the absence of design registration in France, consequently rule that the Tulip chair does not enjoy any protection at all.

It is interesting to note that, in the first instance, Knoll had claimed that the application of Article 2(7) of the Berne Convention was likely to lead to discrimination on grounds of nationality, by referring to the famous *Tod's* decision of the ECJ³. However, this argument was rejected because the plaintiff was not a national of a Member State of the European Union.

Lastly, Knoll had also raised claims for unfair competition and parasitism, stressing the fact that the defendant was selling the litigious chairs using the mark "Tulip" and even the name of the designer, Eero Saarinen. However, the Paris Court of Appeal rejects those claims, on the grounds that it is simply *"the title of a creation whose name is associated with the history of design"*.

Such decision drastically restricts future protection in France of works of applied art disclosed for the first time in the U.S. and points out the limits of the Berne Convention in this respect. Indeed, in view of the low requirements for copyright protection in France, there is no real doubt that, if the "Tulip chair" had been created and disclosed in France, it would have enjoyed copyright protection.



3. ECJ, 30 June 2005, C-28/04, *Tod's SpA and Tod's France SARI v Heyraud SA*

SPAIN:

Ana Benetó

SPAIN'S IMPLEMENTATION OF THE 2016 TRADE SECRETS DIRECTIVE

On 1 June 2018, barely more than a week before the expiry of the deadline to implement Directive (EU) 2016/943 of 8 June 2016 on the protection of trade secrets ("**Directive**"), the Spanish Congress published the Proposal for a Trade Secrets Act ("**draft TSA**"). As of today, however, its definitive version has not yet seen the light of day. Amendments to the text, which do not substantially affect it, were published on 26 September 2018 and are pending to be voted on.

Before the Directive entered into force, Spain already had legislation in place governing the protection of trade secrets, in the form of the Unfair Competition Act 3/1991 ("**UCA**") and the Criminal Code (Organic Act 10/1995). The draft TSA will not affect the existing legislation completely. However, it will entail certain modifications to the current civil law regulations, which should be noted.

Unlawful acquisition, use and disclosure of trade secrets

The UCA does not distinguish between "original" infringers (directly acquiring the trade secret from its holder without consent or using or disclosing a trade secret without consent in breach of confidentiality or limited use obligations) and "indirect" infringers (persons obtaining, using or disclosing a trade secret who have obtained it directly or indirectly from another person using or disclosing the trade secret illicitly). It merely lists the acts considered to be an unlawful exploitation of trade secrets¹ and states that, to consider them unfair competition acts, the person accessing, using or exploiting the trade secret must have acted with the intention of obtaining a benefit for itself or a third party, or of harming the trade secret holder.

Conversely, the draft TSA does distinguish between "original" infringers (not requiring a subjective element to consider their acts² to be unlawful) and "indirect" infringers (establishing that the person acquiring, using or disclosing the secret "*knew or ought to have known, under the circumstances, that the trade secret had been obtained directly or indirectly from another person who was using or disclosing the trade secret unlawfully*" as a pre-requisite to consider their acts as unlawful).

1. Accessing a trade secret by espionage or a similar procedure; disclosing or exploiting a trade secret accessed lawfully (but with a duty of confidentiality); and disclosing or exploiting a trade secret accessed unlawfully, as a consequence of inciting the lawful termination of a third party's contract or taking advantage of the breach by another party of its contractual obligations for one's own benefit or a third party's benefit when, if known, its purpose is the dissemination or use of a trade secret.

2. Acts by original infringers include: (i) the acquisition of a trade secret through unauthorised access to, the appropriation of or copying of documents, objects, materials, substances, electronic files or other media, or through any other act that is contrary to honest commercial practices, and (ii) unauthorised use or disclosure of a trade secret when carried out by the person who has unlawfully acquired the secret, is in breach of a confidentiality undertaking or any other duty to not disclose the trade secret, or is in breach of a contractual or other duty to limit the use of the trade secret.

Key Issues

- As of today, the implementation of the Trade Secrets Directive is still pending in Spain, although the draft Trade Secrets Act is currently progressing through the legislative process.
- The draft Trade Secrets Act does not signify a complete re-working of the existing civil law regime for the protection of trade secrets in Spain, but it does modify certain aspects.
- Certain aspects that were not expressly regulated for trade secrets are now included in the draft Trade Secrets Act; for example, rules on co-ownership and licences of trade secrets, and the possibility of substituting remedies sought in a main action by a pecuniary compensation are now reflected.
- The draft Trade Secrets Act further specifies (or adapts to trade secrets' nature) existing provisions that were already applicable to trade secrets – for example, in relation to remedies or preliminary injunctions.
- The draft Trade Secrets Act implies a direct modification of the Unfair Competition Act in aspects such as the limitation period or *locus standi* to bring actions for the protection of trade secrets.

The draft TSA also incorporates a provision governing the exploitation of “infringing goods”, which is a novelty in the Spanish regime.

In any case, in line with the UCA, the draft TSA states that damages will only be awarded if there is evidence of the infringer’s intentionality or negligence.

Co-ownership and licences

The draft TSA regulates co-ownership and licences of trade secrets, closely following the provisions established in the Spanish Patent Act but including certain particularities in light of trade secrets’ nature – for example, that the assignment of the trade secret or the granting of a licence must be done jointly by all co-owners.

Remedies

The draft TSA mirrors the UCA, which lists the declaration of infringement, cessation (or prohibition), removal of effects, damages and publication of the judgment as remedies available to the trade secret holder. However, the draft includes more detailed and tailor-made remedies not expressly envisaged in the UCA (although arguably included within the general remedies established therein). For example, the destruction of or delivery to the trade secret owner of documents, objects, materials, substances or electronic files containing the trade secret, or the recall of infringing goods.

The draft TSA also allows the substitution of the remedies sought in a main action by the payment of a pecuniary compensation if certain conditions are met (first and foremost, that the acquirer of the trade secret has acted “*in good faith*”), a possibility not set out in the UCA.

Damages

Unlike the UCA, the draft TSA establishes two alternative criteria for quantifying damages: the “*negative economic consequences*” and a “*lump sum*” that will at least consider a notional royalty.

Limitation period

The draft TSA establishes a limitation period of three years, as from the moment when the plaintiff became aware “*of the person carrying out the infringement*”, departing slightly from the one-year limitation period set out in the UCA. One of the proposed amendments to the draft TSA is to extend the limitation period to four years.

Active locus standi

The draft TSA restricts the *locus standi* to the trade secret holder and to any licensee who proves that it has express authorisation to bring such actions, thus limiting the UCA rule whereby any person participating in the market whose economic interests are directly harmed or threatened by the unfair competition act is entitled to bring the action.

The draft TSA also includes a provision copied from the Spanish Patent Act enabling the licensee with no *locus standi* to request the patent holder to bring the action and to bring it itself if the holder refuses to do so or does not bring the action within three months.

Preserving confidentiality during Court proceedings

The confidentiality obligations and the measures that can be ordered by the Court to preserve confidentiality set out in the draft TSA constitute a more detailed and complete regime than the non-disclosure provisions of the Spanish Civil Procedure Act.

While the Directive only refers to measures to protect confidentiality of information that may constitute a trade secret used or referred to in proceedings regarding trade secrets' protection, the draft TSA also covers such information provided in proceedings *"of another class where the consideration of such information is necessary to reach a decision on the merits."*

Preliminary injunctions

The provisional measures included in the draft TSA are similar to measures already established in Spanish law, although they are more closely adapted to the nature of trade secrets and to the concept of "infringing goods".

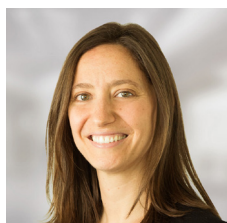
The draft TSA also includes provisions governing aspects such as requests for a substitute bond and the possibility of claiming for damages against the applicant if injunctions are granted and subsequently lifted. These rules do not generally depart from the existing regime. However, the draft TSA adds some specificities, such as the impossibility of substituting preliminary injunctions aimed at avoiding the disclosure of a trade secret by a bond, or the obligation to preserve the bond deposited by the applicant for at least a year after the preliminary injunctions have been lifted (considering the possibility of claiming damages for parties affected by preliminary injunctions that have subsequently been lifted).

In conclusion, although the draft TSA is not a complete re-working of the Spanish regime on the protection of trade secrets, it entails certain modifications to specific aspects which should be heeded. In any case, definitive conclusions will be drawn after the publication of the TSA's final version.



ACKNOWLEDGEMENT OF CONTRIBUTORS TO THE CURRENT EDITION

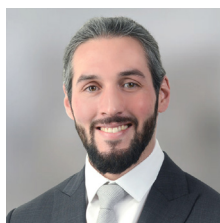
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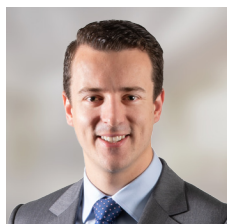
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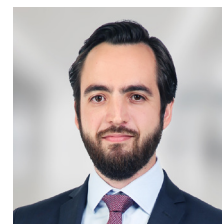
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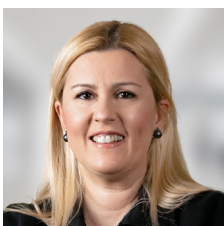
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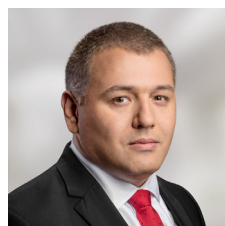


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C H A N C E

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