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Intellectual Property and Entertainment Law Committee

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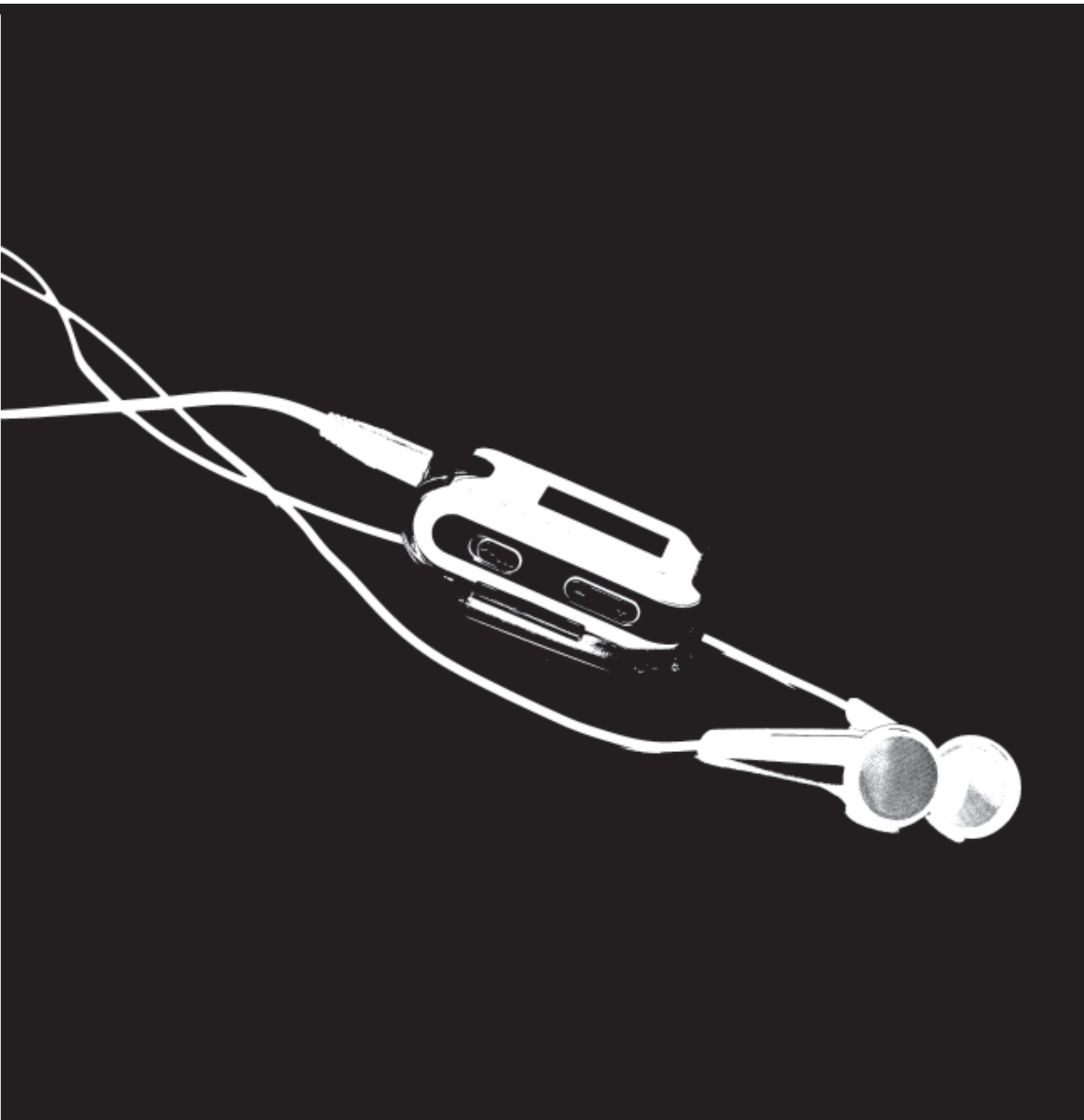

INTERNATIONAL BAR ASSOCIATION CONFERENCES




CPD/CLE HOURS AVAILABLE

The Life of a Start-Up: From Initial Financing to IPO/Exit

4–6 November 2012 Rosewood Sand Hill Hotel and Resort, Silicon Valley, California, USA

A conference presented by the IBA North American Regional Forum, supported by the IBA Intellectual Property and Entertainment Law Committee, the IBA Closely Held and Growing Business Enterprises Committee, the IBA Technology Law Committee and The State Bar of California International Law Section.

Topics include:

- Challenges of start-ups with international operations
- International IP strategy
- International legal and regulatory strategies
- Hot issues for multi-jurisdictional start-ups and mature companies
- Liquidity and exit strategies

Who should attend?

The conference will be of particular interest to private practitioners, corporate in-house counsel, venture capitalists and entrepreneurs engaged in global decision making involving international operations of growing companies investment, control, IP and regulatory issues, employment/labour issues, FCPA compliance and exit strategies.

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This newsletter is intended to provide general information regarding recent developments in intellectual property and entertainment law. The views expressed are not necessarily those of the International Bar Association.

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INTERNATIONAL BAR ASSOCIATION ANNUAL CONFERENCE

DUBLIN 30 SEPTEMBER – 5 OCTOBER 2012

IP AND ENTERTAINMENT LAW COMMITTEE SESSIONS

MONDAY 1430 – 1730

A revolution in the right of publicity

Joint session with the Intellectual Property and Entertainment Law Committee and the Media Law Committee.

This session will look at the cutting edge developments in this new body of law with a focus on the areas of sports, movies and music. It will include issues relating to the use of trademarks in background scenes, and the issues relating to the use of the persona of sports figures in factual and historical films and games.

Know-how, trade secrets and trade dress protection

Joint session with the Intellectual Property and Entertainment Law Committee and the International Franchising Committee.

A critical component of all franchise systems is the franchisor's know-how and trade secrets, and in some systems also its trade dress. This programme will address various ways in which the franchisor can protect those critical elements of its system. A panel of experts will examine the key aspects of such protection under intellectual property law, unfair competition laws, contract law and franchising regulations.

Get your IP house in order – the what, why, and how – advising entrepreneurs and closely held businesses in setting up an IP strategy

Joint session with the Closely Held and Growing Business Enterprises Committee, the Intellectual Property and Entertainment Law Committee and the Young Lawyers' Committee.

This session will focus on the common IP issues which face start-up and closely held businesses (including family-owned businesses). These will include ownership of trademarks, copyright and inventions, with a particular focus on contributions from those both inside and outside the circle of owners. The importance of assignments and IP audits will be explored. Preparing for IP due diligence by investors will also be a major topic. Protection strategies 'how to protect your brand, creative and technical IP', growth financing and what venture capitalists and private equity investors look at in terms of IP before they invest, succession issues and maintaining the position of the founders through the business life cycle, IP valuation and the protection and export of IP internationally will all be considered, as will the internationalisation of IP.

Follow the money – monetary compensation in intellectual property cases

Joint session with the Intellectual Property and Entertainment Law Committee and the Litigation Committee.

Lawyers with an international intellectual property practice must have some knowledge of the risks and rewards associated with IP litigation in jurisdictions of interest to their clients. This session will seek to inform practitioners on the availability and nature of compensation for the infringement of patents, trademarks, copyrights and designs in addition to damages arising out of the violation of a licence on IP rights.

The type of compensation to be discussed will range from proven damages of the IP owner, the profits of the infringers, pre and post judgment interest, legal fees and disbursements, punitive damages, etc. This session will consider strategies for the management of client expectations as clients or their instructing counsel may mistakenly presume they are entitled to remedies and quantum of damages similar to that available in their home jurisdiction.

How to slice the cake – licensing and distribution agreements

Presented by the Intellectual Property and Entertainment Law Committee.

This session will consider the licensing of intellectual property across industries, prohibitions on geographical restrictions, intellectual property issues, market segmentation, physical products versus digital content, authorised versus grey market distribution, sublicensing and differential royalty rates, revenue streams and pricing structures. Licensing has become an important component of doing business worldwide and the market dynamics rapidly evolving challenge lawyers around the globe to become familiar with the trends in order to better protect their client's interests. Lessons to be learned, currents trends and an outlook on licensing will be discussed in a high-level debate among in-house counsel, private practitioners and industry speakers.

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'Where there's smoking, there are fireworks': the Australian Government's Tobacco Plain Packaging Act 2011 and the tobacco companies' response*

Background

The Australian Government and a consortium of tobacco companies[1] representing some of the world's leading brands are currently locked in battle before the High Court of Australia over the Government's recent introduction of legislation to mandate plain packaging for tobacco products.[2] The Government's legislative initiative is the latest action in an ongoing public health campaign over a number of years by a succession of Australian Governments progressively restricting the promotion and sale of tobacco and tobacco products. The response of the tobacco companies has been to take the Government to the High Court in an attempt to have the legislation held invalid.

The litigious response by the tobacco companies has been described by some commentators as akin to a 'last-gasped' campaign to retain some degree of control and autonomy in respect of the direct marketing of their products.[3]

On 21 November 2011, the Australian Parliament enacted the Tobacco Plain Packaging Act 2011 (Cth) (the 'TPP Act'), and related legislation, which requires plain packaging of all cigarettes and other tobacco products sold in Australia after 1 December 2012.[4] The Government asserts that the legislation is part of a comprehensive suite of reforms as a public health initiative that it is implementing to reduce smoking and its perceived harmful effects.[5] The introduction of plain packaging is one means by which the Government will give effect to Australia's obligations under the World Health Organization Framework Convention on Tobacco Control (FCTC).[6] Article 11 of the FCTC requires Parties to implement effective measures to ensure that tobacco packaging does not promote a tobacco product by any means that are false, misleading, deceptive or likely to create an erroneous impression about its characteristics or health effects. Article 13 of the FCTC requires Parties to implement comprehensive bans on tobacco advertising, promotion and sponsorship. Guidelines adopted by the Conference of the Parties to the FCTC for Articles 11 and 13 recommend that Parties consider introducing plain packaging.[7]

Tobacco Plain Packaging Act 2011

As noted previously, the TPP Act and related legislation is part of a comprehensive suite of reforms as a public health initiative that the Australian Government is implementing to reduce smoking and its perceived harmful effects. As part of these reforms, the Government has been committed to introduce legislation requiring plain packaging of tobacco products, and thereby to restrict one of the few remaining opportunities for tobacco advertising.

In its Explanatory Memorandum to the Bill, the Government outlined its rationale for the plain packaging legislation.[8] It aims to prevent tobacco advertising and promotion on tobacco products and tobacco product packaging in order to:

- reduce the attractiveness and appeal of tobacco products to consumers, particularly to the younger generation;
- increase the prominence and effectiveness of currently mandated health warnings on product packaging;
- reduce the ability of the tobacco product and packaging to mislead consumers about the harmful effects of smoking; and
- in the long term, contribute to efforts to reduce smoking rates.

In justification of this campaign, of which this Act forms a key part, the Government is relying on research that it asserts demonstrates that messages and images promoting the use of tobacco products can normalise tobacco use, increase uptake of smoking by youth and act as disincentives to quit. Tobacco packaging's primary role is to promote brand appeal, while plain packaging has been shown to be less appealing.[9] Pack design can also distract from the prominence of graphic health warnings.

The TPP Act prohibits the use of any trademark or mark, including any line, letters, numbers, symbol, graphic or image on retail packaging of tobacco products, other than the brand, business or company name for the tobacco products, and any variant name. The brand and variant name are required to be represented in the same way by all tobacco manufacturers, using a prescribed colour, font and size.

Chapter 2 (sections 17–29) of the Act sets out the controversial detailed requirements in respect of the restrictions on tobacco product packaging, and in respect of the products themselves. No decorative ridges, or other embellishments, can be used on tobacco packaging, including shape, size and opening.[10] Cigarette packs and cartons must have a standardised rectangular shape with no decorative elements, and packs must have flip-top openings. The lining of packs must only be foil backed with paper, or a material allowed by regulations.

All faces, both inner and outer, of retail tobacco packaging and any lining of cigarette packs must be 'in a matt finish[11]... in drab dark brown',[12] this shade being deemed optimal in terms of decreasing the appeal and attractiveness of tobacco packaging, decreasing the potential of the pack to mislead consumers about the harms of tobacco use, and increasing the impact of graphic health warnings.

To ensure that no other design features detract from the impact of the plain packaging requirements, any trademarks or other marks appearing on tobacco packaging are prohibited, unless required under the other legislative instruments or permitted by or under the Acts, or relevant regulations.[13]

However, some limited application of trademarks will be allowed, namely, the *Quitline* trademark,[14] which is required under the Trade Practices (Consumer Product Information Standards) (Tobacco) Regulations 2004, and any brand, business or company name or variant name that can appear while still complying with the detailed requirements of the TPP Act and its regulations.[15] However, these brand, business, company or variant names will still need to appear in a particular way, in specific locations on the packs, and must not obscure any other tobacco legislative requirements.

Section 28 preserves the trademark owner's ability to protect a tobacco trademark within the provisions of the Act, and to register and maintain registration of the mark, even though its use is restricted. It provides for interaction with the Trade Marks Act 1995 (Cth) and its regulations. A tobacco manufacturer applying for registration of a trademark in respect of tobacco products is taken to intend to use the trademark in Australia, if it would have been used except for the operation of the TPP Act.[16] Similarly, an application by another party for removal of a tobacco trademark from the Register of Trade Marks on the grounds of non-use would be rejected by evidence that the registered owner would have used the trademark, except for the operation of the TPP Act.

In similar terms, section 29 prevents an order being made requiring a licence to be granted in relation to a registered design, or revoking registration of a design under the Designs Act 2003, as a result of the provisions of the TPP Act preventing the use of a registered design.[17]

The TPP Act recognises that there may well be constitutional issues in respect of the operation of its restrictive provisions. Hence it has been drafted so as to avoid the potential for any acquisition of property other than on just terms that would be contrary to section 51(xxxi) of the Australian Constitution. However, out of an abundance of caution, this clause provides that the Act does not apply to the extent that it would cause an acquisition contrary to section 51(xxxi) of the Constitution.

More specifically, the Act provides that if preventing the use of trademarks on tobacco products or their packaging, without providing compensation, is contrary to section 51(xxxi) of the Constitution, the trademarks can be used.[18] However, the accompanying regulations may still prescribe restrictions (eg on size and placement) for the purposes of this provision. But the Act does not include any general provision for the payment of compensation in the event that its operation would otherwise result in an acquisition of property other than on just terms.

The Trade Marks Amendment (Tobacco Plain Packaging) Act 2011, which was introduced at the same time, amends the Trade Marks Act 1995 to allow for regulations to be made to enable tobacco trademark owners to still protect their tobacco trademarks against infringement, and to ensure that parties are not prevented from registering new trademarks.

Tobacco companies' argument

'Property' within the meaning of section 51(xxxi) of the Australian Constitution

The tobacco companies, as the plaintiffs, contend that the TPP Act and the consequent virtual prohibition on the use of their trademarks and other 'get-up' on cigarette packaging extinguishes their rights in respect of their trademarks and other forms of intellectual property. This extinguishment is, in effect, an acquisition by the Commonwealth of their intellectual property rights. They argue that since such acquisition is undertaken on other than 'just terms', it is unconstitutional. They also maintain that the same prohibition is contrary to the rights granted to holders of registered trademarks under the Australian Trade Marks Act 1995 (Cth), and contrary to rights enshrined in other intellectual property legislation.[19]

The tobacco companies' constitutional argument relies on section 51(xxxi) of the Australian Constitution, which provides that:

> 'The Parliament shall, subject to this Constitution, have power to make laws for the peace, order, and good government of the Commonwealth with respect to:
> …
> (xxxi) the acquisition of property on just terms from any State or person for any purpose in respect of which the Parliament has power to make laws…'

They contend that section 51(xxxi) is not confined to estate or interest in land recognised at law or in equity or other tangible property. It includes every species of valuable right and interest and 'any tangible or intangible thing which the law protects under the name of property'.[20] It extends to 'innominate and anomalous interests and includes the assumption and indefinite continuance of exclusive possession and control for the purposes of the Commonwealth of any subject of property'.[21]

The specific property rights over which the tobacco companies claim ownership, and which they assert as being acquired by the Commonwealth under the terms of the TPP Act, encompass:

- statutory intellectual property rights arising under the Trade Marks Act 1995 (Cth), the Patents Act 1990 (Cth), the Designs Act 2003 (Cth) and the Copyright Act 1968 (Cth);
- rights in connection with goodwill and reputation established through the sale to the public of cigarettes using distinctive 'get-up'; and
- rights in connection with the physical materials comprising cigarettes, and their retail packaging.

The rights in respect of the trademarks, as enshrined in the Trade Marks Act 1995 (Cth) are the exclusive right to use or authorise others to use the trademark in relation to goods in respect of which they are registered (namely, tobacco products). That Act stipulates that a trademark is personal property[22] and the registered owner of a trademark may deal with it as its absolute owner.[23]

The tobacco companies assert rights in respect of patents (which subsist in the cigarette packaging), designs (which subsist in the cigarette packaging and general 'get-up', and the cigarettes) and copyright in images depicted on their cigarette packaging (although the Commonwealth contests the latter on the basis that they are not 'original artistic works' within the meaning of section 32 of the Copyright Act (Cth) because they are mere variations on pre-existing 'get-up'). Stipulations in respect of the proprietary nature similar to those of trademarks exist in copyright, patents and designs legislation.

The second type of property asserted by the tobacco companies is in respect of the goodwill and reputation developed because of cigarette sales using the distinctive get-up associated with a particular brand. The third type of property is the physical chattels constituting the retail packaging and the cigarettes themselves. This type of property is separate to any intellectual property rights arising in connection with them.

There is no real dispute between the tobacco companies and the Commonwealth as to the existence of certain property rights in respect of the trademarks and other intellectual property; rather, what the parties dispute are the nature and amplitude of those rights.

Acquisition of property

The tobacco companies acknowledge that they have not been formally deprived of their trademarks, patent, design, copyright, get-up, goodwill and rights in their packaging, but rather that they have been 'in a real sense... stripped of the possession and control' of their property'.[24] They argue that the Commonwealth has deprived them of 'everything that made [that property] worth having'.[25] The extent of the restriction on their use of their property is thus capable of being characterised as an acquisition by the Commonwealth.

In order to constitute an 'acquisition' within the meaning of section 51(xxxi), there needs to be an accompanying interest gained by the Commonwealth or other party in the property, however slight or insubstantial.[26] The tobacco companies assert[27] that:

- The word 'acquisition' is not to be 'pedantically or legalistically restricted to a physical taking of title or possession',[28] since (as mentioned above) the property protected by section 51(xxxi) extends to 'innominate and anomalous interests'.
- The 'interest in property' allegedly acquired by the Commonwealth or some other party does not need to correspond precisely with what was taken.
- It is sufficient to demonstrate that the Commonwealth or some other party has acquired an 'interest in property' if they have obtained some identifiable corresponding benefit or advantage relating to its ownership or use.

Even though there has not been any actual transfer of trademarks, other intellectual property or other property, the prohibition of the principal and most valuable use of that property, namely the branding, confers on the Commonwealth the corresponding benefit. It enables the Commonwealth to use the packaging space vacated by the trademarks for its own purposes. Those corresponding benefits, the tobacco companies argue,[29] include the following:

- the right to use property by refraining from deploying it for certain purposes;
- the prohibition on the use of their intellectual property coupled with positive requirements as to the physical appearance of the cigarette packaging – including the right to dictate every aspect of the appearance of the packaging and to impose its own design and 'get-up';
- the right to project on to the packaging any and all messages that the Commonwealth legislates from time to time;
- the right to promote services offered by other entities, such as Quitline;
- the right to dictate the appearance and content of the packaging (including printing the Commonwealth's, and others', messages thereon), without any obligation to pay for the design, printing or publicity benefit thereby obtained;
- enabling the Commonwealth to achieve its own particular objectives, as set out partly in section 3 of the Act.

'On just terms'

Attendant on a valid acquisition of property pursuant to section 51(xxxi) of the Constitution is the requirement that such acquisition be on 'just terms', which the tobacco companies hold to be the payment of compensation representing the full value of that which has been taken from them. The tobacco companies reject what they perceive as the Commonwealth contention to the effect that the TPP Act incorporates 'just terms' by virtue of the 'fair deal' it establishes between the Australian nation, and the tobacco manufacturers and merchants in respect of the public health objectives of the legislation, and the fact that brand names can still be used on tobacco packaging in a prescribed form.[30]

While they again acknowledge that the Commonwealth does have the power to make laws for the acquisition of property free of any obligation to provide just terms (such as the taxation power and bankruptcy and insolvency power), the tobacco companies assert that such power should be limited to circumstances where the application of just terms would be inconsistent or incongruous with the purpose of section 51(xxxi).[31]

Commonwealth's defence

In contrast, the Commonwealth submits that the TPP Act, by virtue of its restrictions on the sale of tobacco products to compliant packaging, is a statute regulating trading activity, and is not a law that effects an unjust acquisition of property within the meaning of section 51(xxxi) of the Constitution.[32] Section 51(xxxi) is a protection to property and not the general commercial and economic position occupied by traders. It does not protect the freedom to trade or the diminution in reputation or goodwill that might be a consequence of the diminution of that freedom.[33]

The Commonwealth has ventured to rebut the key arguments of the tobacco companies by positing four key questions, which it immediately answers in the negative in each case, as set out below.

Do tobacco companies have property... ?

The Commonwealth accepts that tobacco companies hold property, but not of the nature and amplitude they assert in their submissions. Their statutory rights to trademarks, patents, registered designs and copyright are, in any event, inherently subject to statutory modification or extinguishment without compensation, for the purpose of preventing or reducing harm to the public or public health.[34]

The Commonwealth concedes that the plaintiffs have a property right for constitutional purposes being a 'statutory assurance of exclusive use of the trade mark; a monopoly right to exclude others from using that mark in relation to the relevant goods and services'.[35] These are in essence 'negative rights', but any positive rights to use trademarks are mere creatures of statute and 'inherently susceptible of variation'.[36] To the extent that a statutory right is inherently susceptible to modification or even extinguishment, a law modifying or extinguishing that right involves no taking and hence no acquisition of property.[37] Even so, the TPP Act does nothing to diminish any statutory right conferred by the Trade Marks Act 1995 (Cth) because the statutory assurance of exclusive use is not eroded.

So the Commonwealth denies that the plaintiffs have any positive property rights at all to use its trademarks. Trademark use is a privilege that the Government can curtail. 'Privilege is not property... it is a liberty to act unless regulated by law'.[38] The trademarks law is in place to ensure that companies' marks are protected from misuse by competitors or individuals.

Their argument springs from the proposition that not every right granted by statute can sensibly be classified as 'property' for constitutional purposes, for to do so would effectively confound the Commonwealth's legislative powers since it would be obliged to pay potentially massive compensation to affected persons whenever it amended legislation in a manner that adversely affected anyone's 'rights'.

The argument on retention of statutory exclusivity in respect of trademarks applies equally in respect of patents, designs and copyright, argues the Commonwealth. Hence none of the statutory rights the companies claim will be taken from them by the Act therefore involve any right to use, free from any other legal restrictions. No pre-existing right of property has been diminished or property actually taken.

Does someone acquire benefit in the nature of property?

Taking property alone is not necessarily acquisition in terms of section 51(xxxi) of the Constitution. The extra element is that another party obtains some identifiable benefit or advantage. While plain packaging will remove the effect of trademarks and associated get-up as a distraction from mandatory health warnings on tobacco products in retail packaging, neither the mandate for those warnings nor the enhancement of their capacity to inform members of the public confers on the Commonwealth or others any benefit of the nature of property. Enhancement of the efficacy of the *Quitline* trademark is not in substance and degree a benefit of the nature of property. If there is a benefit derived, which is still debatable, it is in respect of increasing the effectiveness of the mandatory health warnings for the benefit of improving public health.

Would any acquisition... be within the conception of 'just terms'

The conception of 'just terms' refers to fair dealing – fairness between the community and the owner of that which is taken; it does not refer to compensation connoting full monetary equivalence.

The restrictions imposed by the Act constitute regulation of trading activity in a manner appropriate and adapted to reducing harm to the public and public health. Any acquisition of property by the Commonwealth would be incidental to or consequential on those restrictions, and therefore is not necessarily invalid. In any case, to require the provision of compensation under the guise of 'just terms' to those gaining commercial benefit from continuing to engage in a harmful trading activity, except for the operation of the Act, would be profoundly incongruous.

Would any such acquisition be on terms that are unjust?

The TPP Act restricts the use of property no more than is appropriate and adapted to reduce harm to the public and public health, and is thus narrowly targeted as is necessary to serve the public interest. The Act otherwise allows tobacco companies to use their brand names and variant names on retail packaging to indicate trade origins and to not lose trademarks and registered designs through non-use. The Act does not restrict the tobacco companies from continuing to exercise their exclusive rights in respect of their intellectual property in circumstances or contexts not otherwise subject to statutory restriction.

Reading between the lines

Unreliable as they may be, if media reports are any gauge, the Commonwealth appears to have presented the more compelling case over the three days of hearings.[39] Counsel for the tobacco companies appear to have struggled to convince the court of the merits of their clients' core arguments; judges were described in one report as 'openly sceptical of counsel's claim that the Commonwealth's plans were equivalent to stealing'.[40]

The major hurdle that the tobacco companies have had to overcome, and appear to have found it rather difficult to do so, has been the public health issue of smoking and its consequences. Counsel for the tobacco companies drew on a variety of authorities from a number of jurisdictions in respect of the nature of property and its acquisition in their attempts to draw analogies with their clients' intellectual property rights on cigarette packaging. However, the courts have challenged counsel for the tobacco companies on a number of occasions, on the grounds that the cases presented dealt primarily with real estate matters. French CJ suggested that the matter of tobacco was exceptional: 'None of these cases, and none of the cases to which you have taken us involve somebody putting into the marketplace a substance which places at risk of serious and fatal disease... We are talking about something in quite a different category, are we not? Doesn't this put it into a different category?'[41]

Attempt by counsel for the tobacco companies to draw a contrast and sense of incongruity between the low level of health warnings on a Ratsak packet – a potent rat poison – and the space devoted to mandatory health warnings currently on cigarette packaging did not appear to move the court, and drew the response that the Ratsak warning was an admonition to take care in use, while the tobacco package warning was a message that smoking kills.

At times, argument as to the nature of the property allegedly acquired by the Commonwealth appears to have travelled with difficulty between the trademarks, the billboards being the cigarette packages or, indeed, the space on the packages. As Hayne J queried, 'Is there not this slip again... between control of the market and control of the space?'[42]

As counsel for the tobacco companies commented early in the hearings – 'this is almost Andy Warhol territory'.[43]

High Court outcome

At the time of writing, the High Court has reserved its decision until later in the year. So the metaphorical jury is still 'out' as to the outcome. Although opinion on the likely outcome is divided, the overall consensus appears to have the odds in favour of the Commonwealth. Perhaps not surprisingly, legal practitioners tend to see some favour with the position of the tobacco companies, notably in respect of the 'corresponding benefit' argument. The legal academic industry appears to generally favour the Commonwealth, with opinion ranging from a close call to the tobacco companies' chances of success on the constitutional issue being 'much the same as a three-legged horse winning the Melbourne Cup'.[44]

In terms of the wider legal principles and irrespective of which party the outcome favours, it has been suggested that the High Court judgment can provide guidance on the:

- difference between acquisition of property and regulation;
- relationship between property and intellectual property; and
- standard of justice underlying 'just terms'.[45]

The case also provides the High Court with an opportunity to contemplate the constitutional role of the Commonwealth in regulating and protecting health, and may well have larger implications for the labelling of therapeutic goods, food, alcohol and beverages such as soft drinks.[46]

This battle before the High Court represents high stakes for both combatants. For the tobacco companies, victory may well open the way for claims for compensation for diminution of earnings – which they

have already claimed could run into billions of dollars.[47] It will also cause considerable damage to the Commonwealth's public health campaign against smoking, and possibly lead to further challenges against restrictive legislation that has already been given full effect in respect of graphic health warnings on cigarette and other tobacco packaging. It will also strengthen the hand of the tobacco companies in their ongoing campaign in other jurisdictions against public health statutory initiatives aimed at reducing smoking, particularly by the young. Further, victory will no doubt bring to a sudden halt, at least for the time being, other governments' above-mentioned intentions to also seriously consider the introduction of legislation mandating plain packaging for tobacco products.

For the Australian Government, victory will ensure that the plain packaging legislation will come into effect as planned, without constitutional hurdles or claims for compensation of any substance from the tobacco companies. It will also be heralded as a major national public health initiative. It will further encourage other jurisdictions to introduce similar legislation, and perhaps dent the prospects of success of the tobacco companies in other dispute resolution fora, such as the Council of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) at the World Trade Organization.

This battle is but one round in the tobacco packaging war, and irrespective of the outcome, further battles will continue to be fought. The outcome in Australia will influence those further campaigns, providing heavy ammunition for the victorious party or its allies and supporters in other jurisdictions.

Other battlefields

Australia–Hong Kong Bilateral Investment Treaty 1993

As mentioned above, this High Court case is just one of a number of skirmishes in the war between the tobacco companies and the Commonwealth over plain packaging for cigarettes and tobacco products.

Philip Morris Asia (PMA), a Hong Kong company, which owns 100 per cent of the shares in Philip Morris Australia, has initiated investor-state dispute resolution proceedings through a notice of arbitration under a 1993 Bilateral Investment Treaty (BIT) between Australia and Hong Kong.[48] PMA claims that the plain packaging legislation is a substantial deprivation of the intellectual property and goodwill vested in its Australian subsidiary – a similar argument to that propounded before the High Court. It argues that the deprivation constitutes an expropriation of its investments and breaches the terms of the Treaty in respect of the treatment of investments in Australia.[49] PMA's written notification of claim alleges that it is entitled to compensation 'in an amount to be quantified but of the order of billions of Australian dollars'.[50]

The Australian Government's formal response of December 2011 emphasises that PMA did not have any formal interest in the Australian company until February 2011, some ten months after the Australian Government had made its policy position clear and public. So the Government's argument is that PMA acquired assets knowing that, according to it, the value of those assets was about to be reduced by 'billions of Australian dollars'.

In addition, it received submissions from Philip Morris about the proposed legislation well before February 2011, so that PMA could not claim that it was not aware of the impending action by the Australian Government. The Government argues that PMA acquired assets in Australia knowing that it could be adversely affected by the forthcoming legislation, its motive being to enable it to launch a claim under the BIT.

The arbitration will be conducted under the United Nations Commission on International Trade Law (UNCITRAL) Arbitration Rules 2010. The tribunal was constituted on 15 May 2012.

World Trade Organization Dispute Settlement Body

Two countries, namely Ukraine and Honduras, have lodged formal requests for consultations with Australia over its plain packaging legislation under the World Trade Organization (WTO) dispute resolution procedures. The consultations, which are confidential, are a precursor to a formal request to the WTO Dispute Settlement Body to establish a dispute settlement panel.

Ukraine, which conducts only nominal trade with Australia, but which apparently has a well-established and burgeoning tobacco manufacturing industry, is arguing that the tobacco plain packaging measures violate Australia's obligations under the WTO's TRIPS Agreement, its Agreement

on Technical Barriers to Trade (TBT) and the General Agreement on Tariffs and Trade1994 (GATT 1994).[51] It maintains that the legislation and related measures are unnecessary obstacles to trade, and nullify or impair the benefits accruing to Ukraine under these agreements. Curiously, Ukraine has just signed into law a prohibition on all forms of advertising, sponsorship and promotion by the tobacco industry, and is reportedly considering introducing similar plain packaging legislation.[52]

The Honduran request follows a similar path to Ukraine, but adds that Australia's actions constitute a diminution of its obligations under TRIPS in respect of national treatment provisions generally, and specifically in respect of the protection of geographical indications.[53] It also argues, with logic difficult to follow, that the 'measures at issue result in treatment less favourable of imported products than of like products of national origin'.[54]

Australia held consultations in Geneva with Ukraine on 12 April and Honduras on 1 May. However, final outcomes could be 12 months or more away.

While the central matter in both the High Court and the 'other battlefields' is still plain packaging for tobacco products, the issue before the High Court is essentially the constitutional validity of the legislation, while the WTO and the UNCITRAL arenas will be concentrating on the perspective of international trade and investment rules and treaty obligations. 'Potentially what could happen is the High Court rule in favour of the Government but a global body such as the WTO may step in and rule against it',[55] with potential for further ongoing disputation in both domestic and international fora over the extent and circumstances in which international treaty obligations take precedence over domestic law (both generally and in respect of this ongoing plain packaging war).

The tobacco companies also appear to be attempting to capture some moral high ground by cautioning that a victory for the Commonwealth in the High Court and the imposition of plain packaging will open the floodgates for counterfeit cigarettes to flood the global market – cigarettes that, by virtue of being counterfeit, contain trace elements and toxic or carcinogenic substances that are far more injurious to public health than their own genuine products. The argument extends to making it easier for low-quality or counterfeit products to be produced and sold alongside well-known brands, where the armoury of the legitimate tobacco product owner is reduced since it can no longer rely on graphical signs to distinguish its products from others. The argument presumes, however, that counterfeiters, particularly those operating on a grand and organised scale, are incapable of already producing the marks and get-ups of the current tobacco packaging.

Global interest

Since Australia is the first country to introduce plain packaging for tobacco products, the litigation proceedings and outcome will be keenly watched and scrutinised by other governments, which are considering implementing similar legislation. The European Union and several governments, including those of the UK, France, Canada, Belgium and Iceland, are reportedly considering introducing legislation to introduce plain packaging legislation for tobacco products. The UK Government has recently launched consultations on plans to introduce similar legislation, with the key questions being whether cigarette packets should be changed to a plain standardised template, be packaged in a different way or remain as they are.[56] The UK Minister for Health, the Honourable Andrew Lansley, is reportedly 'inspired by Australia's lead on cigarette plain packaging for the UK to develop similar laws of its own'.[57]

New Zealand is reportedly considering similar legislation. In November 2011, the Associate Minister of Health, the Honourable Tariana Turia commended the 'brave initiative' of the Australian Government on enacting plain packaging laws, and added that 'I am really looking forward to New Zealand following the lead of Australia and introducing plain packaging laws in the next Government'.[58] Following the commencement of proceedings in the High Court of Australia, the Minister further announced in April 2012 that the New Zealand Cabinet has now agreed in principle to introduce a plain packaging regime in alignment with Australia, but subject to a public consultation process undertaken later in the year.[59]

While there will no doubt be strong and emotion-charged arguments from both sides of the debate over plain packaging for tobacco products, as has occurred in the Australian context, the outcome of the Australian High Court case is sure to be a key factor in the campaigns in a number of countries and in the international trade fora.

Notes

* This article was peer reviewed by two Officers of the Intellectual Property and Entertainment Law Committee: Al Jacobs, (Regional Representative Asia General) and Caroline Berube (Vice-Chair of the Trademark Law Subcommittee).

1 Namely, British American Tobacco Plc (BAT), Japan Tobacco Inc (JT), Philip Morris International Inc (PM) and Imperial Tobacco Group Plc (IMT).

2 *British American Tobacco Australasia Limited and Ors v The Commonwealth of Australia* S389/2011, High Court of Australia; related matter *J T International SA v The Commonwealth of Australia* S 409/2011, High Court of Australia, **www.hcourt.gov.au/cases/case-s389/2011** at 15 June 2012.

3 See Mark Davison, 'Smoke and mirrors: Big Tobacco's last gasp legal challenge to plain packaging', *The Conversation*, 18 May 2011, at **http://theconversation.edu.au/smoke-and-mirrors-big-tobaccos-last-gasp-legal-challenge-to-plain-packaging-811** at 15 June 2012.

4 The associated legislation being the Trade Mark Amendment (Tobacco Plain Packaging) Act 2011 (Cth). Commencement of most provisions in the plain packaging legislation is scheduled for 1 October 2012. However, the principal provisions of the Tobacco Plain Packaging Act 2011 (Cth) relating to the prohibition of trademarks and other controls on packaging presentation come into operation on 1 December 2012.

5 Explanatory Memorandum, Tobacco Plain Packaging Bill 2011 (Cth), p 1. The Government asserts that: 'Tobacco smoking remains one of the leading causes of preventable death and disease among Australians, killing over 15,000 Australians every year. The social costs of smoking (including health costs) are estimated at $31.5 billion each year. Although the number of daily smokers in Australia has fallen by more than half a million in the last decade, approximately three million Australians still smoke.'

6 Framework Convention on Tobacco Control) [2005] ATS 7 (WHO FCTC), at **http://whqlibdoc.who.int/publications/2003/9241591013.pdf** at 15 June 2012.

7 See WHO, 'Guidelines for implementation of Article 11 of the WHO Framework Convention on Tobacco Control (Packaging and labelling of tobacco products)', Clause 46, **www.who.int/fctc/guidelines/article_11.pdf** at 15 June 2012; See also Guidelines for implementation of Article 13 of the WHO Framework Convention on Tobacco Control (Tobacco advertising, promotion and sponsorship), Clauses 16–17, at **www.who.int/fctc/guidelines/article_13.pdf** at 15 June 2012.

8 Explanatory Memorandum, Tobacco Plain Packaging Bill 2011 (Cth), p 1.

9 Ibid 1–2.

10 Tobacco Plain Packaging Act 2011 (Cth), s 18(1).

11 Tobacco Plain Packaging Act 2011 (Cth), s 19(2)(a).

12 Tobacco Plain Packaging Act 2011 (Cth), s 19(2)(b)(ii). The 'drab dark brown' colour in question being Pantone colour 448C.

13 Tobacco Plain Packaging Act 2011 (Cth), s 20(1)–(3).

14 Quitline is a national telephone advisory service that assists smokers with giving up smoking. *Quitline* is a mark owned by the Victorian Anti-Cancer Council.

15 Tobacco Plain Packaging Act 2011 (Cth), s 21(1)–(3).

16 Tobacco Plain Packaging Act 2011 (Cth), s 28(3)–(5).

17 Tobacco Plain Packaging Act 2011 (Cth), s 29.

18 Tobacco Plain Packaging Act 2011 (Cth), s 15(2).

19 Namely, the Copyright Act 1968 (Cth), the Patents Act 1990 (Cth) and the Designs Act 2003 (Cth).

20 British American Tobacco Australasia Ltd, 'Submission of the Plaintiffs', submission in *British American Tobacco Australasia Limited and Ors v The Commonwealth of Australia*, HCA S389/2011, 26 March 2012, para 5.

21 Transcript of Proceedings, *British American Tobacco Australasia Limited and Ors v The Commonwealth of Australia* [2012] HCA S389/2011 (18 April 2012) 1778–1781 (AJ Myers QC, citing Dixon J in *Bank of NSW v The Commonwealth* (1948) 76 CLR 1 at 349).

22 Trade Marks Act 1995 (Cth), s 21(1).

23 Trade Marks Act 1995 (Cth), s 22(1).

24 British American Tobacco Australasia Ltd, 'Submission of the Plaintiffs', submission in *British American Tobacco Australasia Limited and Ors v The Commonwealth of Australia*, HCA S389/2011, 26 March 2012, para 39.

25 *Ibid*.

26 See, eg, *Commonwealth v Tasmania* (1983) 158 CLR 1 at 145 per Mason J; see also *Australian Tape Manufacturers Association Ltd v Commonwealth* (1993) 176 CLR 480 at 499–500 per Mason CJ, Brennan, Deane and Gaudron JJ; *Mutual Pools & Staff Pty Ltd v Commonwealth* (1994) 179 CLR 155 at 185 per Deane and Gaudron JJ.

27 *Ibid*.

28 *Ibid* para 41(a).

29 *Ibid* para 46.

30 *Ibid* para 53.

31 *Ibid* para 63.

32 Commonwealth of Australia, 'Submission of the Commonwealth of Australia', submission in *British American Tobacco Australasia Limited and Ors v The Commonwealth of Australia*, HCA S389/2011, 26 March 2012, 3.

33 *Ibid* para 67.

34 *Ibid* para 5.

35 *Ibid* para 48.

36 *Ibid* para 56.

37 *Ibid* para 57.

38 Transcript of Proceedings, *British American Tobacco Australasia Limited and Ors v The Commonwealth of Australia* [2012] HCA S389/2011 (18 April 2012) 4841–4842 (W Sofronoff QC).

39 See, eg, Mark Metherell, 'Tobacco Industry's legal challenge stumbles as death tops agenda', *Sydney Morning Herald*, Sydney, 19 April 2012; Emma Connors, 'Tobacco case plain but not simple', *Australian Financial Review*, Sydney, 17 April 2012; Fiona Sharkie, 'Tobacco giants cower behind smokescreen', *Herald Sun*, Melbourne, 28 May 2012.

40 Marcus Priest, 'Hard Road for tobacco firms' barristers', *Australian Financial Review*, 18 April 2012.

41 Transcript of Proceedings, *British American Tobacco Australasia Limited and Ors v The Commonwealth of Australia* [2012] HCA Trans 092 (18 April 2012) 4560–4566 (French CJ).

42 Transcript of Proceedings, *British American Tobacco Australasia Limited and Ors v The Commonwealth of Australia* [2012] HCA Trans 091 (17 April 2012) 2270–2271 (Hayne J).

43 *Ibid* 815 (G Griffith QC).

44 Matthew Rimmer, 'A submission on the *Trade Marks Amendment (Tobacco Plain Packaging) Bill 2011* (Cth)', *Submission to the Senate Legal and Constitutional Committee*, page 54. The Melbourne Cup is Australia's premier horse race held on the first Tuesday in November each year, and popularly known as 'the race that stops the nation'.

45 Matthew Rimmer, 'Big Tobacco's box fetish: plain packaging at the high court', *The Conversation*, 20 April 2012, **http://theconversation.edu.au/big-tobaccos-box-fetish-plain-packaging-at-the-high-court-6518** at 15 June 2012.

46 *Ibid*.

47 Philip Morris Asia Limited Notice of Claim, Agreement between The Government of Hong Kong and the Government of Australia for the Promotion and Protection of Investments (27 June 2011) para 48.

48 Agreement between The Government of Hong Kong and the Government of Australia for the Promotion and Protection of Investments (Hong Kong–Australia BIT), 1748 UNTS 385 (signed 15 September 1993, entered into force 15 October 1993).

49 Philip Morris Asia Limited Notice of Claim, Agreement between The Government of Hong Kong and the

Government of Australia for the Promotion and Protection of Investments (27 June 2011) para 10. For a discussion of the BIT and the PMA claim, see Tania Voon and Andrew Mitchell, 'Time to Quit? Assessing International Investment Claims Against Plain Tobacco Packaging in Australia' (2011) 14(30) *Journal of International Economic Law* 515–552; Mark Davison, 'Big Tobacco vs Australia: Philip Morris scores an own goal', *Conversation*, 20 January 2012, at **http://theconversation.edu.au/big-tobacco-vs-australia-philip-morris-scores-an-own-goal-4967** at 15 June 2012.

50 Philip Morris Asia Limited Notice of Claim, Agreement between The Government of Hong Kong and the Government of Australia for the Promotion and Protection of Investments (27 June 2011) para 48, **www.ag.gov.au/Internationallaw/Documents/Philip+Morris+Asia+Notification+of+Claim.DOC.pdf** at 15 June 2012.

51 Australia – Certain Measures concerning Trademarks and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging, WTO Doc WT/DS434/1, G/L/985 (15 March 2012) (Request for Consultations by Ukraine). In specific terms Ukraine claims that Australia's measures appear to be inconsistent with Arts 1, 1.1, 2.1, 3.1, 15, 16, 20 and 27 of TRIPS; Arts 2.1 and 2.2 of the TBT Agreement; and Art III:4 of the GATT 1994.
Between 22 and 26 March 2012, Guatemala, Norway, Uruguay, Brazil, Canada, the European Union, New Zealand and Nicaragua requested to join the consultations, all of which Australia accepted.

52 See 'Yanukovych signs law to ban tobacco advertising', *Tobacco Campaign*, 14 March 2012, **www.tobaccocampaign.com/yanukovych-law-ban-tobacco-advertising** at 15 June 2012.

53 Australia – Certain Measures concerning Trademarks and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging, WTO Doc WT/DS435/1, G/L/986 (10 April 2012) (Request for Consultations by Honduras)

54 *Ibid* 3.

55 Gillian Triggs, 'High Court hearing into tobacco plain packaging laws', **http://sydney.edu.au/news/law/436.html?newsstoryid=9071** at 15 June 2012.

56 See UK Department of Health Public Consultation, 'Standardised Packaging of Tobacco Products', **http://consultations.dh.gov.uk/tobacco/standardised-packaging-of-tobacco-products/consult_view** at 1 June 2012.

57 'Australia inspires UK on cigarette plain packaging', *ABC News*, 14 April 2012, **www.abc.net.au/news/2012-04-14/australia-inspires-uk-to-seek-cigarette-plain-packaging/3950160** at 15 June 2012.

58 Press Release, 'Minister commends plain packaging move in Australia', New Zealand Government, 22 November 2011, **www.beehive.govt.nz/release/minister-commends-plain-packaging-move-australia** at 15 June 2012.

59 Press Release, 'Moving towards plain packaging of tobacco products', New Zealand Government, See **www.beehive.govt.nz/release/moving-towards-plain-packaging-tobacco-products** at 15 June 2012.

State of flux: landmark Australian cases ponder copyright in the digital age

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Copyright in the digital environment has been the subject of recent focus by Australian courts, with two significant decisions handed down already this year. The first of those cases, *Roadshow Films Pty Ltd & Ors v iiNet Limited* [2012] HCA 16 involved an internet service provider (ISP) and the case of *National Rugby League Investments Pty Limited v Singtel Optus Pty Ltd* [2012] FCAFC 59 concerned a cloud-based recording service, the first of its kind in Australia. This article summarises those cases and the broader implications of those decisions on Australian copyright law, in particular on Australian ISPs and cloud-based service providers. As can be seen from both decisions, the liability of a service provider for copyright infringement by its customers is largely dependent on the degree of control that the service provider has over the infringing activity.

Case 1: Roadshow Films Pty Ltd & Ors v iiNet Limited [2012] HCA 16

The first case concerns Australian ISP, iiNet and whether or not it had authorised the infringement by its customers of the copyright in films and television programmes owned or licensed by 34 Australian and US movie studios ('the movie studios'). iiNet's customers had, through their internet accounts, made the films available online using the BitTorrent file sharing system. On 20 April 2012, the High Court of Australia, the highest court of appeal in Australia, unanimously found (after four years of litigation) that iiNet did not authorise the infringement by its customers of the movie studios' copyright. This decision follows previous judgments earlier in the proceeding by the Federal Court of Australia, which had also found in favour of iiNet.

Background

In July 2008, the Australian Federation Against Copyright Theft (AFACT), an organisation that represents the interests of copyright owners, began to send iiNet letters, notifying iiNet of alleged infringements of the movie studios' copyright by its customers and requesting that iiNet take action to prevent further infringements from occurring ('the infringement notices'). From July 2008 to August 2009, AFACT sent infringement notices to iiNet on a weekly basis. The infringement notices included details such as the time and date of the alleged infringements, the films in issue and the IP addresses of the alleged infringers. iiNet challenged the validity of the infringement notices on the basis that they did not adequately identify the alleged infringer and consequently did not take any action in response to the infringement notices. The movie studios brought proceedings against iiNet alleging that its inactivity amounted to authorisation of copyright infringement.

iiNet's terms of use

iiNet provided internet access to its customers under the terms of its customer relationship agreement (CRA). One of the terms of that agreement was that a customer must not use the internet to commit an offence or to infringe another person's rights, or for illegal purposes or practices. If a customer breached one of the terms of the CRA, iiNet was entitled, under the CRA, to cancel, suspend or restrict a customer's access to the internet without notice.

Authorisation of copyright infringement in Australia

Under section 101(1) of the Australian Copyright Act 1968, a party who is found to have authorised copyright infringement is taken to have also committed copyright infringement.[1] In determining, for the purposes of section 101(1), whether or not a party has authorised copyright infringement the court takes into account the following matters as set out in section 101(1A) of the Copyright Act:

- the extent (if any) of the party's power to prevent the doing of the infringing acts;
- the nature of the relationship between the party and the party who carried out the infringing acts; and
- whether the party took reasonable steps to prevent or avoid the doing of the infringing acts, including whether the party complied with any relevant industry codes of practice.

To determine whether or not iiNet had authorised copyright infringement by its customers, the primary issues for consideration by the Court were:

1. Did iiNet have a power to prevent its customers from infringing the movie studios' copyright and, if so, what was the extent of that power?
2. Was it reasonable to require iiNet to take steps to prevent those infringements by issuing warnings, suspending or terminating customers' accounts?

Did iiNet have the power to prevent the infringements?

The High Court of Australia held that iiNet had no direct power to prevent its customers from infringing the movie studios' copyright as it had no connection or control over the BitTorrent system. The extent of iiNet's power to prevent the infringements was limited to suspending or terminating a customer's access to the internet.[2]

Was it reasonable for iiNet to take action?

The High Court also found that it was not reasonable for iiNet to take action against the alleged infringers because the information provided by AFACT in its infringement notices to iiNet was insufficient to give iiNet a proper basis for sending warning notices to its customers containing threats to suspend or terminate their accounts.[3] Accordingly, iiNet's inactivity in respect to the infringement notices did not constitute authorisation of copyright infringement by its customers.

The Court considered the infringement notices to be insufficient primarily because AFACT failed to disclose in its infringement notices the methods used to obtain the information about the alleged infringements, which would have allowed iiNet to substantiate the claims of copyright infringement by its customers.[4] Had the infringement notices disclosed the methodology employed to obtain the information about the infringements, the result might have been different.

Based on the information provided by AFACT in its infringement notices, the Court accepted that iiNet's inactivity was not 'indifference' as to the movie studios' rights

but was because of its assessment of the risks involved in taking action (ie the risk of liability for wrongly terminating a customer's account).[5]

Furthermore, Justices Gummow and Hayne considered it unreasonable to expect iiNet to take investigative action to substantiate the 'incomplete' claims of infringement made by AFACT in its infringement notices at a cost to itself.[6]

As the Court held that the infringement notices lacked sufficient detail, it was not reasonable for iiNet to exercise its power under the CRA to suspend or terminate a customer's internet account. The Court also noted that on termination of a customer's account, the customer could simply engage another ISP and re-commence the infringing conduct.[7]

Industry code of practice is likely to follow

In its judgment, the High Court noted that the problem of widespread copyright infringement occasioned by the BitTorrent system would be more appropriately addressed by legislative reform. A solution would be most likely to include an accepted industry code of practice, which may involve judicial involvement to issue fines or terminate an internet account. The issue of who bears the enforcement costs of such a scheme or whether they are shared between copyright owners and ISPs would also need to be addressed.[8]

Since last year, Australian ISPs, copyright owners and interest groups (such as AFACT) have been in discussions, facilitated by the Australian Government, to develop an industry code of practice. To date, those discussions have been unsuccessful. In late 2011, an alliance of Australian ISPs proposed a 'five strikes' policy in Australia similar to the 'three strikes' policy recently introduced in New Zealand. Under the 'three strikes' policy, New Zealand ISPs, on notification from a copyright owner, will send up to three warnings to an infringer before a possible fine of up to NZ$15,000 is issued. However, Australia's proposed 'five strikes' policy was focused more on educating infringers about copyright rather than punishing them through the issuing of fines or possible disconnection from the internet. Not surprisingly, copyright owners opposed such a scheme for being too lax.

However, the High Court's decision may now serve as a catalyst for further negotiations and compromise. Failure to reach agreement might result in the Australian Government intervening and mandating a code of practice through legislation, although the Government has expressed its preference for an 'industry-led' solution to the problem.

Case 2: National Rugby League Investments Pty Limited v Singtel Optus Pty Ltd [2012] FCAFC 59

The second significant Australian copyright case concerned a cloud-based recording service, TV Now, which was launched by Australian telecommunications provider Optus in July 2011. The TV Now service is the first of its kind in Australia, and it allows subscribers to the service to record digital television programmes and store the recordings (for up to 30 days) on remote Optus servers, which subscribers can later play back on their compatible mobile device or personal computer (PC). Subscribers with Apple devices can watch recordings 'near live', with a delay of as little as two minutes from the commencement of the actual free-to-air broadcast.

At issue in the case was whether Optus' TV Now service infringed the copyright in the live broadcasts of National Rugby League (NRL) and Australian Football League (AFL) games. In February this year, the Federal Court judge at first instance held that the subscriber and not Optus had made the recordings and, accordingly, Optus did not infringe the copyright in the live broadcasts of NRL and AFL games. However, on appeal the Full Federal Court of Australia unanimously overturned the trial judge's decision, and found that Optus was at least partly responsible for making the recordings and that the Australian 'time-shifting' exception to copyright infringement did not apply to it.

Background

Following the launch of the TV Now service, the NRL and AFL contacted Optus alleging that its cloud-based recording service infringed its copyright. In August 2011 (just one month after the launch of the service), Optus brought proceedings against the NRL and AFL under section 202 of the Copyright Act claiming they had made unjustified threats of copyright infringement against it in relation to its TV Now service, and seeking damages and declaratory relief. The NRL, AFL and later Telstra (the exclusive licensee of the NRL and AFL broadcasts) (collectively,

'the rights holders') cross-claimed, alleging Optus had infringed the copyright in the live NRL and AFL broadcasts.

Under the Australian Copyright Act 1968 it is an infringement of copyright for a person other than the rights holder of a film or broadcast to make a copy of that film or broadcast and to 'communicate it to the public'. However, section 111 of the Copyright Act permits a person to make a recording of a broadcast if it is for their personal and domestic use, for the purpose of watching it at a more convenient time (this is known as the 'time-shifting' exception).

Whether or not Optus had infringed the copyright in the NRL and AFL broadcasts turned on the following two questions:

1. Who made the recordings: was it the subscriber, Optus or both of them jointly?
2. If Optus was found to have made the recordings, did the section 111 'time-shifting' exception to copyright infringement apply to it?

Who made the recordings?

At first instance, the trial judge found that the subscriber made the recordings when he or she clicked on the 'record' button on their compatible device, as no copies would have been made unless the subscriber performed this action. The trial judge considered the TV Now service to be 'substantively no different from a VCR or DVR'.[9] This analogy had previously been drawn in the US decision of *Cartoon Network LP, LLLP v CSC Holdings Inc*[10] and in the Singaporean case of *Record TV Pte Ltd v MediaCorp TV Singapore Pte Ltd*,[11] which were both found in favour of their respective cloud-based service providers.

However, on appeal, the Full Federal Court of Australia overturned the trial judge's decision and found that Optus was 'manifestly involved' in the copying process as it not only owned and operated the system that made the recordings, but it also solicited subscribers to the service.[12] In addition, the fact that the recordings were stored on Optus servers and that four copies of the broadcast were made in different formats for viewing on different platforms (only one of which would be of use to the subscriber) supported the Court's finding that Optus was at least partly responsible for making the recordings.

Did the Australian 'time-shifting' exception apply?

On appeal, the Full Federal Court found that the section 111 'time-shifting' exception of the Australian Copyright Act applies to private and domestic use, and encompasses recording broadcasts, and watching recorded broadcasts inside and outside a person's home. However, 'there is nothing in the language… of s 111 to suggest that it was intended to cover commercial copying *on behalf of* individuals'[13] and accordingly Optus could not rely on section 111.

In light of the Full Court's decision, Optus has for now suspended its TV Now service; however, it has applied to the High Court of Australia for special leave to appeal this decision.

Implications for cloud-based service providers

This was the first time since the introduction in 2006 of section 111 into the Australian Copyright Act that an Australian court has considered the scope of the 'time shifting' exception to copyright infringement. The Court was explicit that the exception applies to individuals, and does not cover commercial copying *on behalf of* individuals. This potentially has broader implications for providers of cloud-based services that store copyright material *on behalf of* paying consumers, as they might be held liable for the actions of their customers. However, the Full Federal Court noted that 'different relationships [between the service provider and customer] and differing technologies may well yield different conclusions to the "who makes the copy" question'.[14]

Concluding remarks

One conclusion that might be drawn from both of these cases is that the liability of a service provider for the infringement of copyright by its customers primarily depends on the degree of control that the service provider has in relation to the infringing activity. Given the emergence of new cloud-based technology, this is likely to be an ongoing issue for consideration by the legislature, and potentially the High Court of Australia in the not-so-distant future if Optus is granted leave to appeal the decision by the Full Federal Court.

These cases also highlight the inadequacies of the current Australian copyright legislation

in dealing with new digital technologies, and also the difficulty facing legislatures (both in Australia and internationally) to draft legislation to keep abreast of these new technologies, especially in the current fast-paced online environment.

The effectiveness of the Australian Copyright Act in the digital environment is currently under review by the Australian Law Reform Commission (ALRC), which is expected to be completed by November 2013. It is likely that changes to the Australian Copyright Act will follow in the near future.

Notes

1 Copyright Act 1968 (Cth), s 101(1): subject to this Act, a copyright subsisting by virtue of this part is infringed by a person who, not being the owner of the copyright, and without the licence of the owner of the copyright, does in Australia, or authorises the doing in Australia of, any act comprised in the copyright.
2 *Roadshow Films Pty Ltd & Ors v iiNet Limited* [2012] HCA 16 at [78].
3 *Ibid*.
4 *Ibid* [75].
5 *Ibid* [76].
6 *Ibid* [146].
7 *Ibid* [73].
8 *Ibid* [79].
9 *Singtel Optus Pty Ltd v National Rugby League Investments Pty Ltd (No 2)* [2012] FCA 34 at [63].
10 536 F 3d 121 at 131–132 (2nd Cir 2008).
11 [2011] 1 SLR 830 at [16] and [21]–[22].
12 *National Rugby League Investments Pty Limited v Singtel Optus Pty Ltd* [2012] FCAFC 59 at [75].
13 *Ibid* [89].
14 *Ibid* [100].

Software development services and implied licences: standards applied by US federal courts to determine the existence and scope of implied licences in custom software

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It happens more often than you might expect. A company asks a software development services provider to create custom software. The company believes that it owns the software because the company paid for it; perhaps the company provided specifications to the developer, as well as day-to-day guidance during development. However, the company and developer do not execute an agreement that clearly states which party will own the resulting software product. Then a dispute arises, perhaps years after development and delivery of the software to the company, and the developer sues the company for copyright infringement.

In situations like this, what rights does each party hold in the software?

This article discusses standards applied by US federal courts to determine the existence and scope of implied licences to custom software, particularly in situations where a written agreement is either absent or lacks sufficient clarity regarding allocation of intellectual property rights.[1]

Under the US Copyright Act, software is copyrightable as a work of authorship. If the software is developed by an employee of a company, then it likely qualifies as a 'work made for hire' and the employer-company is automatically deemed the owner.[2] However, if the software does not qualify as a work-for-hire then it belongs to its creator, the developer.[3] For a company to obtain ownership of a copyright from an independent software developer,

the developer must agree in writing to assign the copyright to the company.[4] Without that written agreement, the developer owns the software, regardless of the company's payment, instructions or level of oversight.

So, if the developer owns the custom software, does the company have the right to continue to use it, even after the parties' relationship ends?

The short answer is yes, possibly; but it depends on how the parties behaved during development and delivery of the software. Specifically, the company might have a non-exclusive, implied licence to the software, which can serve as an affirmative defence to a copyright infringement claim.[5] However, the parties' course of conduct will dictate the existence and scope of any such licence.[6]

So what type of conduct leads to an implied licence and under what circumstances can a licence arise? How broad is the licence and is it revocable?

To answer these questions, US federal courts traditionally apply a three-part test that was first articulated by the Ninth Circuit court in *Effects Associates v Cohen* (9th Cir 1990).[7] The '*Effects* test' – sometimes also known as the *Asset Marketing* or *Shaver* test – focuses on three elements for determining whether an implied software licence exists: a request for creation of the software; creation and delivery of the software; and intent of the developer to permit use and distribution of the software.

Not surprisingly, the *Effects* test is fact-intensive, and courts apply it in a variety of ways.[8] That said, certain types of conduct can create or negate an implied software licence under each element of the *Effects* test.

Request for creation of the software

The first element gauges whether the company requested creation of the software by the developer. Courts rarely give this element more than a nod, particularly when custom software is at issue because developers generally do not provide software development services without first being asked to perform those services. For example, in *Asset Marketing Systems, Inc v Gagnon* (9th Cir 2008), the court dismissed the software developer's assertion that the company never specifically requested the software. The court pointed out that the developer did not create the programs 'on his own initiative' and then market them to the company; rather, the developer created the software in response to the company's requests.[9]

Creation and delivery of the software to the requestor

Creation of the software

The second element of the *Effects* test asks whether, in response to the company's request, the developer created the requested software and delivered it to the company. The 'creation' requirement is not usually a weighty topic. In most cases involving implied licences, the software at issue was created by the developer by the time litigation commenced.[10] Some courts merge the creation requirement with the 'request' element, asking whether the software was created *for* the company. Payment for the developer's work can tip this inquiry in the company's favour. For example, in *Asset Marketing*, the developer argued that the software could be converted for use for another company, but the court found that the company's payments for the developer's work showed that the software was created specifically for the company.[11]

Similarly, in *Holtzbrinck Publishing Holdings, LP v Vyne Communications, Inc* (SDNY 2000), the court determined that the software at issue was intended solely for use on the company's website, a fact that supported an implied licence to that software.[12]

Delivery of the software

The 'delivery' requirement often receives considerable discussion by courts, and courts have accepted a range of conduct to show delivery – including outright delivery of the software to the company, creation or storage of the software on company computers, and, in some cases, mere access to the software by the company, particularly if the company gained access using passwords provided by the developer.

For example, in *Holtzbrinck*, the court held that the developer 'delivered' the software on the launch of the website for which the software was developed because the company used the website and had password access to the website and copyrighted material on the website. In *Asset Marketing*, in light of the developer's other conduct, the court held that the developer sufficiently 'delivered' the source code when he stored it at the company's facilities.

The two decisions in *Techsavies LLC v WDFA Marketing Inc* (ND Cal 2011)[13] further highlight how fact-dependent the delivery requirement

can be. In the first *Techsavies* decision, the company moved for summary judgment on the developer's copyright infringement claim, asking the court to find that the company did not infringe because it held an implied licence to the subject software. The court denied the company's motion because the company could not demonstrate that it could meet all elements of the *Effects* test.[14] The court found that the company failed to show that the developer delivered the source code, even though the parties launched the website for which the software was created. A month later, in the second *Techsavies* decision, the developer moved for summary adjudication on the issue of 'delivery', which the same court denied because the company had introduced new evidence that its employees gained access to the source code *via* passwords provided by the developer. Although the developer had maintained 'custody and control' of the software, the court held that a reasonable jury could find that the company's password access to the code was sufficient to meet the delivery requirement of the *Effects* test.[15]

Intent to permit the company to copy and distribute the software

The 'intent' element focuses primarily on the developer's 'objective intent at the time of the creation and delivery of the software as manifested by the parties' conduct'.[16] In the software development context, the intent inquiry extends beyond copying and distribution of the software, and looks to the full range of rights at issue.[17] This element can be a pivotal one, as it is used to determine not only whether an implied licence exists, but also the scope of the licence.[18]

Examples of conduct that can demonstrate a developer's intent to grant an implied licence include failure to discuss licensing arrangements, no denial of a licence by the developer, delivery of the software without limits or restrictions on use, failure of the developer to express intent to retain sole control of the software, acknowledgement by the developer of the company's expectation of ownership and the duration and scope of company's use of the software.

The *Asset Marketing* decision established three sub-factors that aid the intent inquiry in the software development context: the nature of the parties' relationship; whether the developer used written agreements (signed and unsigned); and whether the developer did not limit use of the software.[19]

Were the parties engaged in a short-term transaction or an ongoing relationship?

The *Asset Marketing* court asked this question, but provided no guidance on how courts should interpret it. Thus, courts frequently gloss over this factor. Indeed, in *Numbers Licensing, LLC v bVisual USA, Inc* (ED Wa 2009), the court ultimately decided that the inquiry was irrelevant because the developer's status as an independent contractor, alone, suggests that the developer can have no long-term or permanent expectations of involvement with the company.[20]

Did the developer use written contracts that permitted use of the software only with developer's future involvement or express permission?

Under the second intent factor, the lack of any written agreements supports the existence of an implied licence. The *Numbers Licensing* court summarised the inquiry as follows: 'When a license has not been denied and substantial sums of money are paid for the copyrighted work, the absence of a licensing agreement supports the finding of an implied license.'[21]

If written agreements *do* exist, courts generally consider them – even if unsigned – as well as other forms of correspondence to evaluate the developer's objective intent to limit the use at issue. For example, the *Asset Marketing* court considered a signed services agreement in which the developer did not prohibit continued use of the software after termination of the agreement, and also considered an unsigned vendor agreement that expressly stated that the company would have an unlimited licence.[22]

Did the developer's conduct indicate that use without the developer's involvement or consent was permissible?

The third intent factor is the broadest inquiry, and analysis of intent under the *Effects* test often culminates here. The essential question is whether, at the time of development and delivery, the developer's conduct revealed that the developer *did not* intend to limit use of the software. As stated in *Asset Marketing*, the developer 'had to express an intent to retain control over the programs and limit [the company's] license if he intended to do so'.[23] Failure to express intent to limit use of the software is generally interpreted to mean that the developer had no such intent.

For example, in *Credit Bureau Connection, Inc v Pardini* (ED Cal 2010), the court found evidence of an unlimited, implied licence to the subject software, in part, because the company 'enjoyed unlimited use of and access to the software until the dispute arose' and the developer otherwise presented no evidence of its intent to limit the company's use of the software.[24]

As in *Pardini*, courts often evaluate the scope of an implied licence under this third intent factor, particularly when questions arise regarding whether the company may modify the software. A determination of scope can be critical because use of the software outside the bounds of an implied licence could constitute infringement.[25] The conduct of the parties remains the key factor in deciding licence scope.

In *Asset Marketing*, the court held that the implied licence was unlimited in scope, in part because the developer delivered the software without conditions or limitations on use, which the court interpreted to mean that the developer did not intend to prohibit or restrict use of the programs after termination of the relationship. In finding that licence scope permitted the company to modify the software, the court noted that 'custom software is far less valuable without the ability to modify it'.[26]

Likewise, in *Lighthouse Solutions, LLC v Connected Energy Corp* (WDNY 2004), the court decided that the implied licence was unlimited in scope because the developer provided the software without any restrictions, with knowledge of the company's use of the software (including derivative use), yet the developer was silent as to whether the company could further develop the software.[27]

Revocability of an implied licence

So, if an implied licence exists, can the developer revoke it?

US appeals courts consistently apply the legal underpinnings of this inquiry. Essentially, if a company paid for a developer's work (or gave other consideration) then the implied licence is irrevocable.[28] Courts have held that even partial payment is enough to convey an implied licence, particularly when the amount paid is substantial.[29] However, at least one court questioned a company's right to continue to use software files after the parties' relationship ended, where the company did not pay for the files.[30]

The lesson: use clear, written agreements to allocate rights in custom software

Without a suitable written agreement, companies and developers risk becoming embroiled in a dispute over software rights. The outcome of such a dispute is difficult to forecast. As indicated above, a challenge of the *Effects* test is predicting how a court will apply it. Even courts that recite each element of the test do not apply them in a consistent fashion. Some courts will sidestep the specifics and look broadly at the course of conduct of the parties. Sometimes courts simply cite to the *Effects* test for its underlying principle, namely, that without an implied licence, a work for which a company paid would be 'of minimal value'.[31]

Further, without clear guidance from the courts, the complexity of determining the existence and scope of an implied software licence is likely to increase, particularly in the context of subscription- or cloud-based custom software services. For example, the 'delivery' and 'intent' elements of the *Effects* test could be difficult to parse. If a developer hosts cloud-based custom software, when is the software 'delivered' – on access by the company or can the developer successfully argue that it maintained custody and control of the software? If the software is developer-hosted or otherwise managed by the developer, can a company demonstrate sufficient 'intent' of the developer to grant an implied licence without the developer's further involvement? True, it is reasonable to expect that a written agreement would precede creation, delivery and use of cloud-based software. However, agreements do not always keep pace with the technology they purportedly cover.

For these reasons and more, when contracting for software development services, the best course of action is to invest the time necessary to establish a valid, written agreement and to ensure that the agreement terms clearly allocate the parties' intellectual property rights in the resulting software. If, however, questions arise as to whether such an agreement exists, the *Effects* test can guide an evaluation of whether or not an implied licence might exist, and perhaps indicate whether further measures are necessary to secure the rights a party believes it should hold in the custom software product.

Notes

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1 This article is not intended to be comprehensive. Given the factual dependency and broad range of possible legal outcomes, this article cannot cover all software development scenarios; it does not distinguish between object code, source code or any other software form or file. This article does not evaluate works made for hire, specially ordered or commissioned works, pre-emption or other legal issues that can arise in a dispute over software, and it does not evaluate other intellectual property rights a party may hold in custom software products, such as patent or trade secret rights.

2 See *Siniougine v Mediachase Ltd*, 2012 WL 2317364 (CD Cal 2012) (not reported) (holding that a computer program for use on a website – developed by an employee who later became an independent contractor – was developed 'in the course and scope of employment' and also qualified as a 'specially ordered or commissioned' work and, therefore, was a work made for hire owned by the company); see also 17 USC §101 (definition of 'work made for hire'); 17 USC §201(b) ('In the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author… [and] unless the parties have expressly agreed otherwise in a written instrument signed by them, owns all of the rights comprised in the copyright.').

3 See 17 USC §201(a) ('Copyright in a work protected under this title vests initially in the author').

4 See 17 USC §204(a) ('A transfer of copyright ownership, other than by operation of law, is not valid unless… [it is] in writing and signed by the owner of the rights'); *Effects Associates, Inc v Cohen*, 908 F 2d 555, 557 (9th Cir 1990) ('The rule really is quite simple: If the copyright holder agrees to transfer ownership to another party, that party must get the copyright holder to sign a piece of paper saying so.').

5 *Intelligraphics, Inc v Marvell Semiconductor, Inc*, 2009 WL 330259, *11 (ND Ca 2009) (citation omitted) (a copyright owner who grants a non-exclusive licence to a copyrighted work 'waives the right to sue for copyright infringement unless the licensee acts outside of the scope of the license').

6 *IAE, Inc v Shaver*, 74 F 3d 768, 776 (7th Cir 1996) (courts 'universally have recognized that a nonexclusive license may be implied from conduct').

7 *Effects Associates, Inc v Cohen*, 908 F 2d 555, 558 (9th Cir 1990). US federal circuit courts that consider the *Effects* test include *IAE, Inc v Shaver*, 74 F 3d 768 (7th Cir 1996), *Lulirama Ltd, Inc v Axcess Broadcast Services, Inc*, 128 F 3d 872 (3d Cir 1997), *Johnson v Jones*, 149 F 3d 494 (6th Cir 1998), *Foad Consulting Group, Inc v Azzalino*, 270 F 3d 821 (9th Cir 2001), *Nelson-Salabes, Inc v Morningside Development, LLC*, 284 F 3d 505 (4th Cir 2002), *John G Danielson, Inc v Winchester-Conant Properties, Inc*, 322 F 3d 26 (1st Cir 2003) and *Asset Marketing Systems, Inc v Gagnon*, 542 F 3d 478 (9th Cir 2008).

8 For an overview of the variety of ways in which courts evaluate implied licences, see *Psihoyos v Pearson Education, Inc*, 2012 WL 676352, at *15–20 (SDNY 29 February 2012) (finding an implied licence to photographs).

9 *Asset Marketing*, 542 F 3d at 754–55.

10 Issues of joint development sometimes arise, but are beyond the scope of this article. For more information, see *Credit Bureau Connection, Inc v Pardini*, 726 F Supp 2d 1107 1118 (ED Cal 2010).

11 *Asset Marketing*, 542 F 3d at 755.

12 *Holtzbrinck Pub Holdings, LP v Vyne Comm, Inc*, 2000 WL 502860, at *4 (SDNY 26 April 2000).

13 *Techsavies, LLC v WDFA Marketing Inc*, 2011 WL 589809 (ND Cal 10 February 2011) ('*Techsavies I*'); *Techsavies, LLC v WDFA Marketing Inc*, 2011 WL 940800 (ND Cal 17 March 2011) ('*Techsavies II*').

14 *Techsavies I*, 2011 WL 589809 at *4 (denying the company's motion for summary judgment in part because it did not demonstrate that it could meet the delivery and intent elements of the *Effects* test).

15 *Techsavies II*, 2011 WL 940800 at *1 (denying developer's motion for summary adjudication as to 'delivery' under the *Effects* test).

16 *Asset Marketing*, 542 F 3d at 756.

17 *Ibid*, 542 F 3d at 755.

18 See *Nelson-Salabes, Inc*, 284 F 3d at 515 (intent is 'the determinative question'); *Danielson*, 322 F 3d at 40 (intent is 'the touchstone for finding an implied license').

19 *Asset Marketing*, 542 F 3d at 756 (citing *Danielson*, 322 F 3d at 42; *IAE*, 74 F 3d at 777).

20 *Numbers Licensing, LLC v bVisual USA, Inc*, 643 F Supp 2d 1245, 1253 (ED Wa 2009).

21 *Ibid*.

22 *Asset Marketing*, 542 F 3d at 756–57; see also *IAE*, 74 F 3d at 776 (implied licence supported where author mentioned no expectation of a further role in the project at issue).

23 *Ibid*, 542 F 3d at 757.

24 *Credit Bureau Connection, Inc v Pardini*, 726 F Supp 2d 1107, 1120 (ED Cal 2010).

25 *Asset Marketing*, 542 F 3d at 755.

26 *Ibid*, 542 F 3d at 757.

27 *Lighthouse Solutions, LLC v Connected Energy Corp*, 2004 WL 1811391, at *6 (WDNY 13 August 2004).

28 *Asset Marketing*, 542 F 3d at 757; *Holtzbrinck Pub Holdings*, 2000 WL 502860, at *4; *Lighthouse Solutions*, 2004 WL 1811391, at *7; *Credit Bureau Connection, Inc v Pardini*, 726 F Supp 2d 1107, 1120 (ED Cal 2010); but see *Quinn v City of Detroit*, 23 F Supp 2d 741 (ED Mich 1998) (implied licence to software terminable on reasonable notice).

29 *Effects Associates*, 980 F 2d at 559; *IAE*, 74 F 3d at 778; *Lighthouse Solutions*, 2004 WL 1811391, at *5, 7; *Intelligraphics*, 2009 WL 330259, at *12.

30 *Holtzbrinck*, 2000 WL 502860, at *6 (questioning whether company had rights to computer files that 'that were outside the scope of the original work agreement, and were not paid for. To the extent that it did, Holtzbrinck does not have the right to continue to use those files as a licensee'); see also *Parker v Yahoo!, Inc*, 2008 WL 4410095, at *3–4 (SDNY 25 September 2008) (implied licence to website revocable where licensee did not give consideration); *Carson v Dynegy, Inc*. 344 F 3d 446 (5th Cir 2003) (implied licence to worksheet created in Excel revocable for lack of consideration).

31 *Effects*, 908 F 2d at 559; see also *Holtzbrinck*, 2000 WL 502860, at *4 (finding an implied licence where software was intended solely for the company's use on a website and would otherwise be 'worthless'). Further, as the *Techsavies II* court noted, 'The Ninth Circuit has not resolved the issue of whether *Asset Marketing* (which relies on the *Effects* test) or *Foad* (which granted an implied license, in part, to avoid diminishing the intrinsic value of a work for which a company paid) will govern the creation of an implied license, or the specific question… pose[d], which is whether an implied license can exist under *Foad* even if the *Asset Marketing* factors are not all met': *Techsavies II*, 2011 WL 940800, at *2.

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The Amazon case

On 24 November 2011, the Canadian Federal Court of Appeal released its highly anticipated decision in the case of Amazon.com's so-called 'one-click' patent.[1] The Federal Court of Appeal set aside the decision of the trial judge, Phelan J, and referred the case back to the Commissioner for expedited re-examination in accordance with its reasons. For full and plain disclosure, this author represented the interveners, the Canadian Life and Health Insurance Association Inc and The Canadian Bankers Association, in the case.[2]

It was thought that this decision would definitely be going to the Supreme Court as all parties seemed to accept that this would be the test case for so-called 'business method patents'. However, this was not to be, as surprisingly the Patent Office quickly and unceremoniously allowed the Amazon patent over the Christmas holidays 2011 and the patent was issued on 17 January 2012.

The trial decision had seemed to hold that all that was necessary to patent a business method was a useful and practical result, which had minimised, if not eliminated, any need for a physical effect. In this sense, the decision mirrors the reasoning in the famous (but now largely discredited) US Federal Court of Appeal decision in *State Street Bank*.[3] The Canadian Federal Court of Appeal Decision has now also rejected the idea that a useful and practical result alone is sufficient. While not expressly referring to the US *Bilski*[4] case, this result also mirrors the US decision in *Bilski*, which had also required something more than a mere practical result when it set forth its machine or transformation test for patentable subject matter.

The Canadian Court of Appeal decision is welcome if for no other reason than that it brings Canadian law more in line with the current law in the United States, Canada's major trading partner. The *Amazon* trial decision could be, and was, interpreted by many to imply that all that would be required for patentable subject matter was a practical result. This would have resulted in a test for patentable subject matter that is far broader than the current US situation. While there may be academic and doctrinal reasons to prefer a made-in-Canada approach, as a practical matter, Canadian businesses are operating in a largely integrated business environment. To allow US businesses to get patents in Canada for subject matter that is broader than what they could obtain in their home country would be highly prejudicial to Canadian businesses.

In another aspect, the Court of Appeal has helped to prevent a possible unintended consequence of some of the aspects of the trial judge's decision. In particular, the appeal decision should prevent business processes from becoming patentable merely by inserting a computer into the process.

The Court of Appeal's decision (the 'appeal decision') is a highly nuanced decision with much of an 'on the one hand, on the other hand' approach. However, this leaves the door open for further developments by the court and eventually a decision by the Supreme Court after Canadian courts have had more experience with these kinds of cases.

Background and judicial history

The Commissioner of Patents rejected the claims of Amazon.com's patent application for a process and system allowing visitors returning to a website to purchase an item in 'one click' without having to re-enter payment and shipping information. The rejection was on the basis that the patent did not claim an 'invention' as defined in section 2 of the Patent Act.[5]

At trial, the trial judge found that the Commissioner had erred in a number of respects, in particular by:

- adopting a restrictive definition of 'art' that relied too heavily on the physicality of an invention;
- relying on a categorical rejection of business method patents in Canada; and
- departing from the basic principles of purposive claim construction by looking past the language of the claims to the 'substance' of the claimed invention.

The trial judge found that the claimed invention was not merely a scheme but was the practical application of the one-click concept put into action to achieve a commercially applicable result and was therefore patentable.

Reasons of the Federal Court of Appeal

In setting aside the trial judge's findings, the Federal Court of Appeal provided clarification to the tests applied by the Commissioner of Patents in determining the question of patentable subject matter.

No scientific or technological requirement

The Court rejected the suggestion that patentable subject matter must be scientific or technological in nature (except insofar as this distinguishes such patents from the fine arts or works of art that are inventive only in an artistic sense); the use of such an unclear and confusing 'tag line' is unhelpful and should not be used as a 'stand-alone basis' for distinguishing patentable from unpatentable subject matter.

No per se exclusion for business methods patents

The statutory definition of invention as 'any new and useful art, process, machine, manufacture or composition of matter' does not per se exclude business methods. The Court held that there is therefore no basis in law to suggest that a business method cannot be patentable subject matter in Canada, if it otherwise qualifies as not an abstract idea, which either has a physical existence or manifests a discernible effect or change.

A patentable art must cause a change in the character or condition of a physical object

An invention must be something with a physical existence or that manifests a discernible effect or change.[6] This is a modification of the *Lawson* test,[7] which clearly required a physical outcome: 'an act or series of acts performed by some physical agent upon some physical object and producing in such object some change either of character or of condition.' However, the Court of Appeal decision still seems tied (and certainly more tied than in the trial decision) to something physical or a 'discernible effect or change'.

This 'physicality requirement' will necessarily evolve with technology; however, physicality requirements cannot be met merely by having a practical application nor by the fact that the method is carried out by the use of a physical tool – a computer – to give the novel mathematical formula a practical application. An applicant in future will have to distinguish the claims of *Amazon* from *Schlumberger*,[8] which has certainly been given enhanced importance by the appeal decision. *Schlumberger* involved a computer program algorithm used for analysing borehole measurements used in locating hydrocarbon formations in the oil and gas industry. The court looked beyond the application of the computer to look at the invention itself, which was held to be a mere mental calculation and not patentable.

Simply because earlier Canadian courts and earlier UK courts have allowed the patenting of methods or new uses for old substances, there is no basis for believing that those courts intended to divorce such methods from their application to physical agents or substances. The Court of Appeal in *Amazon* did not interpret earlier Canadian cases as so finding. While such methods could be claimed broadly, they had always existed in the context of physical agents acting on physical processes.

Purposive construction governs

The patentability of the *Amazon* claims are to be analysed under the framework of a purposive construction of the subject matter defined by the claims taking into account the relevant art and the state of the art at the relevant time. In determining whether the application claims are patentable subject matter as defined by the claim, the Commissioner can ask or determine what the inventor has actually invented or what the inventor claims to have invented[9] as long as this is grounded in a purposive construction of the claim. According to the Federal Court of Appeal, this will ensure that the Commissioner is 'alive to the possibility that a patent claim may be expressed in language that is deliberately or inadvertently deceptive' in that, 'what appears on its face to be a claim for an "art" or "process" may, on a proper construction, be a claim for a mathematical formula and therefore not patentable subject matter'.[10]

There is a possible contradiction between examining the 'inventive concept' of the claim and the claim language as purposively construed. What happens when the claim language includes limitations that are not part of the 'inventive concept' in order to appear to claim statutory subject matter? The Canadian Court of Appeal recognised that a claim that appeared on its face to be a 'machine' should not be treated as such when the machine was really a general purpose computer implementing an abstract method, idea or scheme. However, this approach appears to allow the reading out of the claim of elements that are not part of the inventive concept, even though intended to be there by the patentee, and even though they would otherwise be

considered essential to the operation of the invention, but not to the inventive concept. Are these approaches reconcilable? Will purposive construction allow a court to distil out the 'inventive concept' of a claim by 'purposively' reading out the non-inventive aspects? Can one read out a non-inventive aspect that has been purposely put there by the patentee? This tension will remain until resolved by the Supreme Court.

Use of a computer

A method is not patentable if the only inventive aspect of the invention is an algorithm that is programmed into the computer to cause it to take the necessary steps to accomplish the method.[11]

This should ensure that schemes, business methods or calculations implemented by means of a general purpose computer are not patentable unless the computer is adding something to the invention itself and not merely a tool for its implementation.

Practical application

As previously noted, a business method does not become patentable subject matter merely because it has a practical embodiment or a practical application or because it is realised by programming the method into a computer.[12]

The Court held that the trial judge's 'practical application' approach could not form the basis of a distinguishing test for patentability and that a proper determination would depend on a purposive construction of the application at issue. Finding that the record did not allow the Court to conduct its own reading of the patent claims in light of the state of the art, the Court referred the matter back to the Commissioner of Patents to re-examine the patent in light of the Court's judgment.

Expert evidence

Another curious aspect of the appeal decision is the role of experts in interpreting claims.

The Court of Appeal has held that the trial judge was wrong to construe the claim literally without a foundation of knowledge as to whether the computer is an essential element of the claim[13] or expert evidence about how computers work and the manner in which computers are used to put an abstract idea to use.[14] The Court of Appeal referred to the Supreme Court of Canada decision in *Whirlpool*.[15] In *Whirlpool* the court said that 'the key to purposive construction is therefore the identification by the court, with the assistance of the skilled reader, of the particular words or phrases in the claims that describe what the inventor considered to be the "essential" elements of its invention'.[16] The court must put itself in the position of the skilled reader but must it also have expert advice to so do?

A balancing act

In the appeal decision,[17] the Court wrestled with the application of the above-mentioned principles to the case at hand and ultimately concluded that it could not make an informed decision. The choice seemed to be, on the one hand, whether the *Amazon* case was one in which the only inventive aspect of the claimed invention is the mathematical formula programmed into the computer to cause it to take the necessary steps and, on the other hand, whether the one-click method is 'not the whole invention' but only one of a number of essential elements in a novel combination. It will be difficult to make this choice in this and future cases, but we can only assume that the Commissioner opted for the latter choice in now allowing the Amazon patent to issue.

In spite of these concerns, there is some useful reasoning in this decision, but the Court of Appeal did not set out any easy-to-follow guidelines for the future as to what is or is not patentable in respect of business method patents. As is often the case, where the law is evolving, we have some idea about what *is not* patentable but no clear understanding of the limits of what *is* patentable.

Notes

1 *Canada (Attorney General) v Amazon.com, Inc et al*, 2011 FCA 328 (FCA).
2 However, the views expressed herein are the author's own and not those of the interveners or of the author's firm. The author wishes to acknowledge the help of Allyson Whyte Nowak and Adam Haller with respect to an earlier version of this article.
3 *State Street Bank & Trust Co v Signature Financial Group, Inc*, 47 USPQ 2d 1596 (Fed Cir 1998) ('State Street').
4 *Bilski v Kappos*, 561 US___ 561 US, 177 L Ed 2d 792 (2010), 130 S Ct 3218 (2010) ('*Bilski USSC*').
5 'Invention' is defined as 'any new and useful art, process, machine, manufacture or composition of matter': RS, 1985, c P-4, s 2.
6 Paragraph 66 of the appeal decision.
7 *Lawson v Commissioner of Patents* (1970) 62 CPR 101 (Ex Ct).
8 *Schlumberger Canada Ltd v Commissioner of Patents* (1981) 56 CPR (2d) 204 (FCA).
9 Paragraphs 42–43 of the appeal decision.
10 Paragraph 44 of the appeal decision.
11 Paragraph 63 of the appeal decision.
12 Paragraph 61 of the appeal decision.
13 Paragraphs 71–72.
14 Paragraph 74.
15 *Whirlpool Corp v Camco Inc* [2000] 2 SCR 1067.
16 *Ibid* 1091 para 45.
17 Paragraph 63.

Patentability of new medical uses of known active pharmaceutical ingredients under Turkish Patent Law

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In most countries, patent protection is available for active ingredients in pharmaceuticals whereas methods for the diagnosis or treatment of diseases that are susceptible of industrial application are exempted from patentability. However, in some countries protection has been made available to each further medical use in the so-called 'Swiss-type claim', that is to a claim 'directed to the use of a substance or composition for the manufacture of a medicament for a specified new and inventive therapeutic application'. Patent protection has also been extended to new dosage regimens of known medicaments.

Turkey has been a party to the European Patent Convention (EPC) since 1 November 2000. It also adhered to the amended text of the EPC, the so-called 'EPC 2000', on 17 March 2007, which came into force for all contracting states at a subsequent date (13 December 2007). However, not all the provisions of the Turkish Patent Decree Law (the 'Patent Law') and the EPC are in line with each other, which has led to a situation of discrepancy with EPC provisions being applicable to European patents validated in Turkey, whereas the Patent Law provisions apply to other national patents, including patents registered through the Patent Corporation Treaty (PCT).

According to Article 6(e) of the Patent Law, methods of diagnosis in relation to the human and animal body, and surgical and therapy methods that apply to the human or animal body, are not considered as inventions and are excluded from the scope of patentability of the Patent Law. However, there is an exception to this provision in the following paragraph: subparagraph (e) of Article 6 shall not apply either to the compositions and substances used in any of these methods or to their process of manufacturing. Therefore it is clear from the Patent Law that substances, compositions or their manufacturing processes for medical uses are patentable.

In 1983, before the EPC 2000 amendments, three cases before the Enlarged Board of Appeal of the European Patent Office (EBA)[1] revealed that second medical use claims are patentable, provided that they are drafted as a so-called 'Swiss-type claim'. According to these decisions, where the invention concerned a known substance 'X', which has a previously unknown therapeutic effect in the treatment of a disease/condition 'Y', a 'Swiss-type' claim would read as: 'Use of X for the preparation of a pharmaceutical composition for treatment of Y.'

With the EPC 2000 amendments, Article 54(5) was introduced, which reads as follows: 'Paragraphs 2 and 3 shall also not exclude the patentability of any substance or composition referred to in paragraph 4 for any specific use in any method referred to in Article 53(c), provided that such use is not comprised in the state of the art.'

An infringement case was filed on 16 December 2012 before one of the Istanbul First Instance IP Courts, by an originator pharmaceutical company having a European patent involving a second medical use: a dosage regimen, against a generic company, which is alleged to indicate the patented indication and dosage regimen in its product label. The generic company has filed a counter invalidation proceeding based on arguments that the patent lacks novelty and inventive step. The generic company has not made any claim regarding the validity of second medical use – dosage regimen claims under the EPC and the Patent Law.

In its interim decision of 2 January 2012 on the patent owner's preliminary injunction request, the Court ruled that the European patent does not have any legal basis, whether under the EPC or the Patent Law, because neither of these laws contained any provision allowing for the patentability of second

medical use claims, by the time the European patent was granted in 2005. Therefore, the preliminary injunction request of the patent owner was rejected. The Court held that second medical use claims are not patentable under the Patent Law, and the EPC 2000 amendment to Article 54(5), which provides legal basis for the patentability of second medical use claims, was not in force by the time the European patent was granted by the European Patent Office (EPO). The Court further held that the Swiss-type claims were developed by the case law of the EBA and that the Court is not bound by such case law.

The first instance IP Court's decision has been criticised, first owing to the Court's declaring an opinion regarding the invalidation of the patent in its decision dealing with the preliminary injunction request, and before the invalidation claim of the opposing party was tried during the substantive proceedings and a final judgment given. The second reason for the criticism is that the Court did not explain the reasons why it concluded that second medical use claims are not patentable under the Patent Law, while the patent in question does not claim for a therapy method per se, but rather a Swiss-type claim, which reads as 'Use of compound X in the preparation of a medicament for the treatment of Y in which X is administered intermittently and in which the period between administrations is at least about 6 months'. Thus the question of why a Swiss-type claim is not patentable, if not under the EPC, according to the provisions of the national Patent Law, has been left unanswered. The Court also did not present any grounds as to why such a claim is not patentable in view of the exception provided in Article 6 regarding the patentability of the substances, compositions or their manufacturing processes for medical uses.

It remains to be seen how the Court will deal with the objections of the patent owner and especially with Article 138 of EPC 2000, which the Court has to apply during the invalidation proceedings of a European patent, and according to which the novelty criteria under Article 54(5) have to be respected.

Notes

1 G 1/ 83, G 5/83, G 6/83.

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'A settlement to pay keeps the iPad in play' – a recapitulation of Apple's longstanding iPad trademark battle in China

Apple has recently been embroiled in a long-running legal battle with Proview Group – an ageing and debt-ridden technology firm – over the trademark for its massively popular iPad. With China being central to Apple's manufacturing chain and the second-biggest market for its products overall, as well as being Apple's biggest potential and untapped market, it couldn't be more important for Apple to secure and obtain the iPad trademark in China. In this article we take a look at all aspects of the dispute between Apple Inc ('Apple') and the Proview Group, consisting of Proview International Holdings Limited ('Proview International'), Proview Electronics Co Ltd ('Proview Taiwan') and Proview Technology (Shenzhen) Co Ltd ('Proview Shenzhen'), what were the possible consequences of this dispute and what lessons can be learnt.

Shenzhen dispute

In 2000, before Apple launched its massively popular iPad tablet, Proview Taiwan registered the trademark 'IPAD' in numerous countries in Asia and Europe and in 2001, Proview Shenzhen

registered the trademarks IPAD and IPAD (stylised) (pictured below) with the Chinese Trademark Office (CTMO) in Mainland China (the 'disputed trademarks').

IPAD iPAD

In 2009, Apple, through the use of a special purpose entity aptly named IP Application Development Limited (IPADL), initiated negotiations with Proview Group to purchase their global portfolio of the IPAD trademarks, including the disputed trademarks. IPADL and Proview Taiwan entered into an assignment agreement (the 'agreement') whereby it was agreed that in consideration of £35,000.00, Proview Taiwan would transfer and assign the trademarks listed in the said agreement to IPADL.[1] According to a released, albeit unverified, copy of this agreement, the disputed trademarks were included in the schedule of the agreement. The trademarks were then transferred from IPADL to Apple.

At the time of the agreement, Apple believed that all the listed trademarks, including the disputed trademarks, were owned and registered by Proview Taiwan, and it was reportedly on this presumption that it executed the agreement with Proview Taiwan.[2] The exact details of how much information, or lack thereof, Apple actually had with regard to who was the registered proprietor of each trademark remains unclear, but it must be questioned how Apple entered into such an important agreement without ensuring that the registered proprietor of the disputed trademarks was also a signatory to the agreement. According to the CTMO, the registered proprietor of the disputed trademarks at the time was Proview Shenzhen and not Proview Taiwan. Proview Shenzhen was never a party to the agreement, nor does the agreement specifically provide that Proview Taiwan was duly authorised to act on behalf of Proview Shenzhen. The question therefore is: did Proview Taiwan have the right and the authority to represent Proview Shenzhen in the negotiations with IPADL and to transfer the disputed trademarks? If they had the requisite authority, then the disputed trademarks should have been transferred to Apple and Proview's failure to do so amounts to a breach of contract. However, if there was no such authority, the agreement would be void insofar as it relates to the disputed trademarks and as such Apple could not enforce the transfer of same.

In 2010, after Apple launched the iPad, it discovered that the disputed trademarks were in fact registered with the CTMO under the name of Proview Shenzhen. It is prudent to note here that in China, in order for a trademark transfer to be valid and completed; the transfer agreement must be submitted to and approved by the CTMO.[3] Had IPADL/Apple taken the necessary steps to do so, it would have become immediately apparent to them that Proview Taiwan was not in fact the registered proprietor of the disputed trademarks. Apple then filed a lawsuit against Proview Group in the Shenzhen Intermediate People's Court (the 'Shenzhen Court') claiming ownership of the IPAD trademark in China on the basis that the agreement gave them global rights to the IPAD trademark including the disputed trademarks that were included in the agreement. Apple argued that when negotiating and signing the agreement, Proview Taiwan had acted as an agent on behalf of the Proview Group, including Proview Shenzhen, and therefore the agreement should be binding on Proview Shenzhen. On 5 December 2011, the Shenzhen Court rejected Apple's suit and held that Apple should have engaged in a higher level of duty of care when entering into the agreement as they should have ensured that the true owner of the mark was party to the agreement. Essentially, the Court found that Proview Taiwan had insufficient authority to transfer the disputed trademarks.[4]

This decision was appealed by Apple and subsequently heard on 29 February 2012 by the Guangdong Provincial Higher People's Court. In the appeal, Apple alleged that IPADL first approached Proview Shenzhen regarding the purchase of the disputed trademarks, but that Proview Shenzhen insisted on selling the disputed trademarks through their affiliate, Proview Taiwan, in order to avoid having to pay their creditors. Apple claims that Proview Shenzhen's top management had full knowledge about the trademark transfer and cited various emails sent by Proview Shenzhen's representatives in 2009. Interestingly, a Hong Kong Court found that Yang Long-San, the chairman of Proview International, had knowledge of the agreement concluding that Yang Long-San 'as the chairman and chief executive officer of Proview Holdings and responsible person and director of Proview Electronics and as

the legal representative, general manager and chairman of both Proview Shenzhen and Yoke Technology, he had at the material time management and control over them, and he had knowledge of the agreement entered into by the parties in December 2009' (this case is further discussed below). However, the Hong Court was determining whether there was a basis for a conspiracy claim, and although the Hong Kong Court may have found that the parties had conspired to damage Apple, Apple needed to illustrate that this intertwined relationship created the requisite authority to execute the agreement in relation to the disputed trademarks.

Proview Shenzhen claimed to have never authorised the transfer of the disputed trademarks and argued that as the transacted amount was paid to Proview Taiwan, a completely independent and separate entity, they are in no way whatsoever bound by the agreement. The cited emails, they say, simply reflect a 'business conversation' between the parties and that in usual business practices a business conversation does not constitute an agreement.

This is the primary dispute between Apple and Proview, which is essentially a commercial dispute regarding an asset transfer; however, there were various other aspects to this longstanding battle.

Hong Kong dispute

In early 2010, rumours surfaced that Proview Shenzhen was negotiating the sale of the disputed trademarks and it became apparent that the Proview Group was in severe financial trouble. In May 2010, the Hong Kong Stock Exchange issued a notice that Proview International's shares had been suspended. Furthermore, Apple became aware that a certain banking corporation had obtained an asset preservation order (APO) and that this APO had been registered with the CTMO against the disputed trademarks. The potential consequences of the disputed trademarks being acquired by a third party, either by Proview Shenzhen disposing of the disputed trademarks or by means of the APO, would be severe for Apple, particularly as the outcome of the Shenzhen lawsuit was still pending. Apple filed for interim injunctive relief in the High Court of Hong Kong requesting that Proview Shenzhen and Yang Long-San be restrained from transferring the disputed trademarks, claiming breach of agreement and conspiracy with a common intention to injure Apple.[5] The Court found in favour of Apple and held that:

> 'Here, the conduct of all the defendants demonstrates that they have combined together with the common intention of injuring Apple and IP Application by acting in breach of the Agreement. Proview Holdings, Proview Electronics and Proview Shenzhen, all clearly under Yang's control, have refused to take any steps to ensure compliance with the Agreement so that the China Trademarks are properly assigned or transferred to IP Application. Instead, they attempted to exploit the situation as a business opportunity for the Proview Group by seeking an amount of $10,000,000 from Apple.'[6]

Although this should be a significant win for Apple, in reality it holds very little weight. First, the judgment considers whether there was a common intention to injure Apple but does not consider whether Proview Taiwan had the requisite authority to assign the disputed trademarks, and secondly, any attempt at enforcing the judgment in Mainland China would be challenging as a Hong Kong judgment is still seen as a foreign judgment, and foreign judgments are notoriously difficult to enforce in China.

Shanghai lawsuit and halting the sale of iPads

Proview Group filed several lawsuits against Apple in various jurisdictions, mostly smaller cities, claiming trademark infringement by Apple and seeking the halt of iPad sales. It appeared that Proview was, in a sense, testing the reactions of both the courts and Apple to these suits. Some of these suits were in fact successful, with the courts finding in favour of Proview and ordering all iPads to be removed from the shelves of the local authorised resellers. In February 2012, Proview ramped up the onslaught by approaching the Shanghai Pudong New Area Peoples Court ('the Shanghai Court') for an injunction to halt all sales of the iPad in Shanghai. As the commercial hub of China, Shanghai is one of Apple's biggest markets, with three of its five flagships stores located in the city, and a ban on sales in Shanghai would obviously have a significant impact on Apple. The Trademark Law protects a registered proprietor's right to the exclusive

use of its registered trademark,[7] and it was on this premise that Proview Shenzhen approached the Shanghai Court arguing that as they were the registered proprietor of the disputed trademarks, Apple was infringing on their exclusive right to use these trademarks by selling and manufacturing the iPad in China. In response, Apple requested that the injunction be rejected and that the trial should be postponed pending the outcome of the Shenzhen litigation. The Court ultimately agreed with Apple stating that the iPads sold in Shanghai originate from US-based Apple, Inc, who own the trademark in the US, and as the China trademark ownership dispute between Apple and Proview Group was still under trial at second instance, the Court was not in a position to determine whether the use of the IPAD trademark by Apple in China did in fact constitute an infringement. According to Article 56 of the Trademark Law, a party found guilty of a trademark infringement would be liable to pay damages, which should be determined either by calculating the profit that the infringer has earned during the period of the infringement and as a result of the infringement, or alternatively, the damage suffered as a result of the infringement during the period of the infringement, and which shall also include the costs involved in stopping the infringement. In the event that damages are incapable of being calculated on this basis, the infringing party may face statutory damages to a maximum of RMB500,000.00 (approximately US$80,000). In theory, as Proview Shenzhen was the lawful proprietor of the trademark and Apple is currently using such trademark in China, this may seem a relatively straightforward case of trademark infringement; however, the repercussions of a such prominent Court in China finding Apple guilty of infringement would be so far reaching that it was no real surprise that the Court would not consider the application while the Shenzhen appeal was still pending.

Customs threat

In February 2012, Proview announced that it had applied to various local customs offices seeking a ban on the iPad, and that it intended to file a complaint with the Chinese customs authorities requesting that the nation's customs bureau block all imports and exports of the iPad.

The Regulations of the People's Republic of China on Customs Protection of Intellectual Property Rights allow for the proprietor of a Chinese trademark to apply to Customs to adopt protective measures in respect of a suspected infringement of its registered intellectual property.[8] The purposes of these Regulations are, in relation to the import and export of goods, to assist in implementing and protecting the exclusive rights to use a trademark, copyright, patent right and other related intellectual property.[9] For example, if the proprietor of a trademark registered in China becomes aware of a third party who is exporting goods with that trademark to another jurisdiction, it can petition to customs to have those goods seized and held pending an infringement suit. Similarly, should the owner of a China trademark become aware of goods being imported with and/or for that trademark, on petition, the Customs authorities may seize such goods pending an infringement case. The situation is complicated where the party exporting the goods is not the owner of the trademark in China, but owns the trademark in the destination jurisdiction, as is the case with Apple. If customs were to ban exports of these goods because a Chinese party has registered the trademark, this could be calamitous, not only for the company in question, but the manufacturing industry in China as a whole. There are countless foreign companies who source products from China but do not own the trademark or other applicable IP in China, but only in the destination jurisdiction and one can imagine the repercussions should these companies be banned from exporting their own goods. Given that Apple's iPad manufacturing is centred in China, a ban of this nature would potentially have a significant impact on the entire iPad supply chain, as well as the one million local employees employed by Foxconn, Apple's China manufacturer. However, it appears that Proview Shenzhen never filed such an application with Customs, and in fact the Customs authorities are said to have advised Proview Shenzhen that it would be difficult to execute such a ban against a product such as the iPad. Yang Long-san told Reuters: 'The Customs have told us that it will be difficult to implement a ban because many Chinese consumers love Apple products. The sheer size of the market is very big.'

US lawsuit

Proview filed a complaint in the California Superior Court in Santa Clara, accusing Apple of fraud and unfair competition. In this particular suit, Proview Group claimed that Proview Taiwan was fraudulently induced into the agreement by the concealment and suppression of material facts by Apple's agents, and that as a result, the agreement is void. Proview alleged that Apple's sole purpose of creating the special purpose entity was intentional misrepresentation and an effort fraudulently to induce Proview Taiwan into the sale of the disputed trademarks. They further alleged that Graham Robinson, an IPADL agent who called himself Jonathan Hargreaves during the negotiation process, lied when he told Proview his company wanted the trademark 'IPAD' because it stood for IP Application Development Limited as well as promising that IPADL would not compete with Proview, and that this duplicity entitles Proview to compensatory damages and disgorgement of Apple's profits from the unfair competition. Should the agreement have been voided for fraud, the iPad trademarks in the European Union, Singapore, Mexico, Indonesia, South Korea, Vietnam and Thailand would have reverted back to Proview Taiwan. However, on 4 May 2012 the California Superior Court dismissed the case on the basis that the parties had agreed to settle any disagreements resulting from the agreement in Hong Kong.

IPad dispute not a case of trademark squatting

Considering the popularity of Apple, understandably there has been an extraordinary amount of hype surrounding this case and focus on China's trademark laws, notwithstanding that the dispute is actually grounded on contractual law rather than IP law. With so much attention on China's trademark laws at the moment, a distinction should also be drawn between the Apple dispute and the recent lawsuit filed by Michael Jordan, which appears to be a case of trademark squatting. Trademark squatting is a widespread problem in China, and occurs when a person or company registers the brand, product, name or company name of others as trademarks. The motivations for doing so can vary and can include the intention to resell the mark, hold it hostage for certain business concessions or to benefit from the product or brand's established goodwill by using the mark on counterfeits or other products. This phenomena of trademark squatting is precipitated by the fact that the Trademark Law does not prohibit bad faith registrations, and this, coupled with the 'first to file' system, leaves a loophole for third parties to register a foreign party's trademark. The 'first to file' system means that a party simply has to be the first party to file an application to register a trademark in China; his party does not have to prove that it was the first to use the trademark,[10] as is the case in many other jurisdictions, for example the US. This makes it particularly easy for a Chinese company or individual to register a foreign brand as its own trademark. With respect to the Jordan case, although there is an exception to the first to file system for well-known brands;[11] the burden will be on Jordan to prove that his name was sufficiently well-known *within* China at the *time* of the registration by the other party, which may be extremely difficult for Jordan to establish. The difference with the Apple dispute is that when Proview Shenzhen registered the IPAD trademark, it did so in relation to its own products rather than in an attempt to benefit from the Apple brand, and for this reason its action should not therefore be construed as a case of trademark squatting.

Conclusion

On 2 July 2012, the Guangdong High Court released a statement stating that after mediation proceedings held on 25 June 2012 the parties have agreed to settle the dispute, and which was approved by the Court on 28 June 2012. The terms of this settlement have not been released; save that Apple is to pay Proview Shenzhen US$60,000,000 for the disputed trademarks.

Notwithstanding that the Apple dispute is founded on contractual elements, it still illustrates important considerations when dealing with trademarks in China. IP laws are in place in China but companies need to be proactive in order to use these laws to their best advantage, and it is therefore imperative that companies register their trademarks in China as soon as possible.

In certain circumstances, as was the case for Apple, the desired trademark may already be registered in China, and the trademark will have to be purchased. Unfortunately, in the case of trademark squatting, this is often the only and usually costly option. When dealing with the transfer of a trademark, it is crucial to negotiate with the correct party. This means

ensuring not only that the contracting party is in fact the registered and lawful proprietor of the trademark, but also that the transfer agreement is signed by the legal representative (a consideration to be paid particular attention to in China), who is a person who has the requisite authority to bind the company. A contract with the wrong party or that is signed by someone other than the legal representative will be completely ineffective. Furthermore, to become the lawful proprietor, a transfer agreement must be registered with and approved by the CTMO.

Apple will hope that this settlement does not set a precedent that would encourage similar lawsuits against it in the future, but considering that Apple's revenue in Greater China during the first three months of 2012 was almost US$8 billion, it seems that Apple will be the party leaving this battle with the biggest smile on its face – as well as the 1.3 billion potential customers.

Notes

1 Paragraph 8 of the High Court of the Special Administrative Region Court of First Instance 739/2012 before Hon Poon J – Reasons for Decision.
2 Paragraph 9 of the High Court of the Special Administrative Region Court of First Instance 739/2012 before Hon Poon J – Reasons for Decision.
3 Provisions of the Trademark Office of the State Administration for Industry and Commerce Concerning Trademark Transfer Applications and the Trademark Law of the People's Republic of China.
4 **www.szcourt.gov.cn/ArticleInfo.aspx?id=4134**.
5 *Apple Inc & IP Application Development Limited v Proview International Holdings Limited, Proview Electronics Co Ltd, Proview Technology (Shenzhen) Co Ltd, Yang Long-San Rowell and Yoke Technology (Shenzhen) Co Ltd*, HCA739/2012.
6 Paragraph 33 of the High Court of the Special Administrative Region Court of First Instance 739/2012 before Hon Poon J – Reasons for Decision.
7 Chapter VII of the Trademark Law of the People's Republic of China – 2001.
8 Article 4 of the Regulations of the People's Republic of China on Customs Protection of Intellectual Property Rights (2010).
9 *Ibid*, art 2.
10 Article 29 of the Trade Mark Law of the People's Republic of China.
11 *Ibid*, art 13.

Agents, pirates and inattentive trademark holders – legal remedies against unlawful registration of foreign trademarks with the German Patent and Trade Mark Office and the OHIM*

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The problem: an overview

What should one do when someone else has registered one's own trademark in a country in which one has not yet done so – perhaps because one was being inattentive, had no interest or simply because it was not necessary to do so – but would now like to do so and is prevented from so doing by that other person's trademark?

Such cases are common. No matter how strong the outrage about 'pirates' may be, the fundamental principles of trademark law do, on the face of it, appear to favour pirates. Trademark rights are territorially restricted and arise primarily by way of registration and not simply through the use of a sign.

A registered trademark usually grants protection against identical or similar use but only if it is used (apart from during the period of grace – in the sense that the mark does not need to be used in Germany and in the EU up to a period of five years from the date of registration) for the goods/services for which it has been claimed. This means that one's 'own' trademark is not a trademark at all in a country where it is not registered,

has not been used or has been registered or used for goods or services that are not similar to those for which it has been registered by the other party.

This article will consider exceptions to this rule and, therefore, possible ways to take action successfully against the undesirable registration of one's – alleged – own trademark. It refers to German and Community trademark law and is therefore addressed, first and foremost, to foreign companies and their advisers who notice that a third party has registered or applied for registration of 'their' trademark in Germany or for the EU without authorisation. For the sake of simplicity, this article will refer to the opposing parties as A and B where A is the affected holder of the foreign trademark and B is the holder of the domestic trademark against which A wishes to take action in respect of registration/use.

The law provides for claims against such trademarks in cases where A has the more senior rights arising from the law governing these more senior rights, for example the German Trade Mark Act (GTMA) or the Community Trade Mark Regulation (CTMR); see 'More senior rights of A' below).

Claims that do not refer to conflicting signs and do not arise out of infringements of intellectual property rights can also arise from certain provisions in trademark law (GTMA, CTMR), which are not linked to the assertion of individual rights in or arising from registered intellectual property (such as the concept of 'applications in bad faith') as well as from the German Unfair Competition Act (*Gesetz gegen unlauterem Wettbewerb*) and other provisions regarding unlawful conduct or acts of use (as more fully set out at 'Unlawful conduct by B' below) and, in turn, from trademark law, for instance where A and B are linked by special contractual relationships ('agent mark', at 'Agents' below). Finally, the article will examine the procedural remedies. The topic is of interest, even beyond its practical significance, because it touches on a variety of different areas (trademark law, competition law, general civil law) and as such requires answers to questions of differentiation and harmonisation. Because of word count constraints applicable to this article, it will only be possible to provide an overview of the bases of such claims and the principles applicable thereto. Further details can be found in the case law cited and in the relevant legal commentaries.

Claim principles

More senior rights of A

Trademarks and company symbols

Under certain circumstances, A can take action against B on the basis of its own rights even though it has not registered the respective sign as a trademark in Germany.

Earlier use. A trademark right in a sign can initially result not only by way of registration but also from use, namely when the sign has acquired public recognition through its use as a mark (section 4 no 2 GTMA; Community law does not recognise the concept of marks acquired by use but does permit opposition and cancellation on the basis of a domestic mark acquired by use: see Articles 8(4) and 53(1)c)).

If A is in a relationship with B and the mark that has resulted through use in the course of trade must be allocated to A by virtue of this relationship, A can, if the right resulting in this manner is more senior than B's right, which has resulted by way of registration, prohibit B, like any other party, from registration and use. Such a case may arise where B's mark and A's company name are the same – A may even have a corresponding registration abroad and/or A's and B's names may be identical, and B works for A as a distributor; because then the public would consider B to be using A's mark; in such a case claims may even arise on the basis of the company name (see 'Company symbols' and in accordance with the provisions governing agent marks see 'Agents' below).

Priority of foreign application. Since, at the time of registration, under certain circumstances the priority of a foreign application or registration can be claimed, it is worth checking whether B's right can be invalidated by way of an application/registration, which, although made later than B's, can in fact claim a better foreign priority (section 6 GTMA, Article 4 Paris Convention (PC), section 34 GTMA, Article 8(2)(a) in conjunction with Article 29 et seq CTMR).

Company symbols. A can also take action against B's mark on the basis of a company symbol if the prerequisites for protection of a company symbol are met and A has the more senior rights. For action against the German registration this is set out in sections 12, 51 I (cancellation of the registration), 15 II and, in some cases, III (prohibition of use – III regards company symbols with reputation) GTMA, and, with respect to the Community

trademark, in turn, Article 8(4) and Article 53(1)(c) CTMR.

The protection (also) for the foreign company symbols results from use of a distinctive symbol: section 5 II GTMA, Article 8 PC.

Famous trademarks. In addition to the registered trademark and the trademark acquired by way of use in the course of trade, there is the well-known mark in the sense of Article 6*bis* PC, sections 4 no 3, 10 GTMA and Articles 8(2)(c), 53(1)(a) CTMR. It grants rights of opposition and prohibition like every mark registered in Germany but is rare because the prerequisites for a mark to be regarded as well known are very strict.

Other rights

Further rights that can be asserted against registration and/or use of B's mark are set out in section 13 GTMA and Article 53 CTMR. Copyright law is of practical significance for picture marks, the other personal (civil name) and industrial property rights are of more theoretical significance (but see the judgment of the General Court of 12 May 2010 T-148/08 on the conflict between trademark and registered designs).

Unlawful conduct by B

Applications in bad faith

Trademark law (Trade Mark Law Directive, GTMA and CTMR) sets out the rules for assessments for cases of conflict that are concerned solely with the sign; the main areas/concepts that arise for consideration are priority, exclusive right of use and risk of confusion. In this perspective, if A is unable to prevent B from registering or using 'its' mark on the basis of these criteria, A is limited to these areas/concepts/criteria and cannot seek to import into or to make applicable to the field of trademark law, criteria or concepts from other branches of law. However, what is permitted by trademark law can still be prohibited if there are other significant circumstances, which, although irrelevant from a trademark law perspective, are relevant from the perspective of other laws.

A significant reference, which refers not only to trademark collisions, can be found in trademark law itself, which states that applications made in bad faith, some of which are invalidated by operation of law or declared invalid in opposition proceedings, can, at the very least, be declared invalid in cancellation proceedings (Recital 12, Articles 3(2)(d), 4(4)(g) Trade Mark Directive, Article 52(1)(b) CTMR, sections 8 II Nr 10, 50 III GTMA). The question is: when is an applicant deemed to be acting 'in bad faith'? It has been established that, on the one hand – unlike, for example, in the case of acquisition of title to goods in good faith – simply being aware of or even negligently not being aware of a potential foreign registration or use of the registered sign is not sufficient and that, on the other hand, moral condemnation or intent to cause damage are not prerequisites. The contrary to purpose aspect, that is use that does not conform to typical market use, is probably a core factor for assessment. The *Chocoladenfabriken Lindt & Sprüngli AG v Franz Hauswirth GmbH* judgment of 11 June 2009 (Case C-529/07, margin no 37 et seq, of the CJEU), which is responsible for finally and absolutely interpreting bad faith in trademark law in the harmonised area, states that bad faith of the applicant must be the subject of an overall assessment, taking into account all the factors relevant to the particular case:

> 'namely in particular
> – the fact that the applicant knows or must know that a third party is using, in at least one Member State, an identical or similar sign for an identical or similar product capable of being confused with the sign for which registration is sought;
> – the applicant's intention to prevent that third party from continuing to use such a sign; and
> – the degree of legal protection enjoyed by the third party's sign and by the sign for which registration is sought.'

Vide also, most recently, judgment of the General Court of 21 March 2012 (Case T-227/09, margin no 33 et seq, prior to this judgment of the General Court of 1 February 2012, Case T-291/09) *Pollo Tropical Chicken on the Grill* and Office for Harmonization in the Internal Market (OHIM) Cancellation Division, decision of 15 March 2011 on CTM 5820691 – *Lion*.

The Federal Patent Court (decision of 24 April 2012, 33 W (pat) 122/09 – *Soulhelp*) and the Federal Court of Justice (decision of 27 October 2011, I ZB 23/11 – *Simca*) recently applied similar criteria. The *Simca* decision states that an application in bad faith can be where:

> 'the applicant knows that another party is using the same sign or one which could be confused with it for the same or similar goods without [having] acquired formal

symbol protection therefor and if there are additionally special circumstances which suggest that the applicant's conduct is immoral. Such special circumstances can be where the owner of the sign, although aware of property rights belonging to the prior user which are worthy of protection, applies for registration as a mark of the same or a similar symbol which could be confused with it for identical or similar goods or services without a sufficient actual reason with the intention of damaging the property rights of the prior user or with the intention of blocking use of the symbol by this party or where the sign owner misappropriates the barring effect resulting from registration of the sign by operation of trade mark law, which is unobjectionable from a competition law perspective, as a weapon in the competition law battle.'

German Unfair Competition Act

A claim against registration and use of a trademark can result from sections 3, 4 no 10 of the German Unfair Competition Act from the perspective of unfair deliberate obstruction. The prerequisite for this, which is not a relevant consideration under trademark law, is that the parties must be competitors as per section 8 III no 1 of the German Unfair Competition Act. Where the boundaries lie between applications in bad faith under trademark law and unfair competition applications under competition law is unclear in theory and in practice; it is hard to imagine a set of facts where the application is not 'in bad faith' but the application unfairly obstructs competition pursuant to section 4 no 10 German Unfair Competition Act. If 'in bad faith' is construed narrowly, sections 3 and 17 of the German Unfair Competition Act can only cover the case, which is by no means rare, where a former employee of a company has the trademark, which is still only an idea at the company, registered for himself because this would certainly not be a registration that runs contrary to the sense of trademark law.

An independent area of application arises from the fact that for applications in bad faith trademark law only provides for remedies relating to the registered right (obstruction of registration, opposition, cancellation) but not relating to the (prohibition of) use and (compensation) for the use of the sign.

Tort

The registration and/or use of a sign used as a mark in Germany or abroad, which may be registered as a sign abroad by A, but in Germany by B, can constitute a tort in general civil law terms with the consequence that there are claims on the basis of section 823 I (commercial enterprise), and, where appropriate, section II in conjunction with provisions of the GTMA/German Unfair Competition Act, or section 826 of the German Civil Code (*Bürgerliches Gesetzbuch*). As in the relationship between trademark law and the German Unfair Competition Act, it is also the case for the relationship between trademark law and general civil law that trademark law assessments should not be overlooked and that general civil law points of view on facts and assessment must be tangible in order for it to be possible to regard conduct, which is not prohibited by trademark law, as nevertheless unlawful. Although general civil law does also cover conduct that takes place outside the course of business, which means that there is an independent area of application in the case of conflicts, for the remedies provided for in trademark law for what is presumably a registration in bad faith, it is not necessary for the conduct to have taken place in the course of business. Recourse to the general law of tort should therefore only be both necessary and possible when the unlawfulness can be accounted for by the characteristic of 'bad faith' and trademark law does not offer the legal consequence sought (injunction, damages), but there are no corresponding claims owing to the lack of a competitive relationship under the German Unfair Competition Act.

Agents

The agent mark is characterised by what is, on the one hand, an independent relationship because it requires a contractual relationship but, on the other hand, however, as far as the contractual relationship is concerned, by facts relating to trademark and competition law assessments. Its regulation in the German (sections 11, 17 GTMA) and in Community trademark law (Articles 8(3), 11, 18, 52(1)(b) CTMR) is based on Article 6*septies* PC (see Federal Court of Justice decision of 10 April 2008, I ZR 164/05 – *audison*, margin no 20 et seq and, most recently, the decision of 21 January 2010, I ZR 206/07 – *DiSC*).

An agent, who has registered the trademark of his principal for himself must, if this registration took place without the principal's consent or without other authorisation, have this trademark cancelled or assign it to the principal on the principal's request. The question is what constitutes an agent and what exactly 'the trademark' is because, in actual fact, the principal does not have a trademark. In its *audison* decision, margin no 21, the Federal Court of Justice states with respect to the agent that it is sufficient, but also a fundamental requirement, for there to be a contractual relationship that places the agent under an obligation to observe the interests of the principal in the course of trade. In the decision of 21 January 2010, I ZR 206/07 – *DiSC*, margin no 34 – it was decided that the protection against unauthorised registration by agents also extends to similar marks in the sense of section 9 GTMA.

Remedies

Administrative procedure

The German Patent and Trade Mark Office takes account of applications in bad faith ex officio – where bad faith is obvious: section 37 III of the German Patent and Trade Mark Act – but the OHIM does not: section 8 II no 10 of the German Patent and Trade Mark Act. If A's action against B's trademark is likely to be successful, where there are better rights, including the right resulting from section 11 GTMA (agent mark), he can oppose registration and seek cancellation thereof: sections 42, 50 III GTMA, Articles 41, 52(1)(b), 53(1)(b) of the CTMR. The fact that the application was made in bad faith must be asserted in the cancellation proceedings; it is not a ground for opposition either in German or in Community trademark law.

Courts

Claims for cancellation, an injunction, damages and/or assignment of the trademark (sections 11, 17, 50 III, 51 I, 55 GTMA, Article 18 of the Community Trade Mark Law, sections 823, 826 and 249 of the German Civil Code, sections 3, 4 no 10, 8, 9 of the German Unfair Competition Act) must be filed in the ordinary courts; oppositions under trademark law (section 22 I no 2, 51 IV GTMA, Articles 100, 52, 53 CTMR) and general civil law (*dolo agit*) can also be filed before these courts and, where appropriate, an application can also be made for a stay of any infringement proceedings being brought by B taking account of any other pending cancellation proceedings pursuant to section 148 of the German Code of Civil Procedure (*Zivilprozeßordnung*) (see Hamburg Higher Regional Court, decision of 5 May 2004, 5 U 85/03 (*Tae Bo*), dismissed there).

Note

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Arabic language trademarks: what to select and what to protect? Problems faced by international brands operating in the Middle East

Over the last century, the Middle East has seen much change – largely resulting from the discovery of oil, which in turn fuelled the rapid development of property-based economies. The Arabian Gulf region, in particular, has experienced an unprecedented economic boom, which has seen a large number of investment opportunities materialise and exploited with great success. As the initial focus of the developing economies was on the in-licensing of foreign brands, those brand owners have sought to protect their intellectual property rights within those markets. It is a well-known fact that the costs of securing trademark registration across the Middle East are among the highest in the world. In assessing where best to focus their resources, brand owners need to establish which markets are key to their business' strategy and protect those rights adequately.

There are a significant number of English speakers within the Middle East, particularly in countries where there are large expatriate communities. However, Arabic is the first language across the region and foreign brand owners should consider the importance of registering Arabic versions of their trademarks through translating or transliterating the original marks to achieve sufficient local language protection.

Selection and protection of Arabic marks

Largely, international brand owners tend to register their original trademarks within the country where they intend to establish their business and subsequently start extending this protection to other territories into which their business expands – which, in some regions, raises the question of whether foreign language equivalents should be registered. Historically, however, many have been slow, or chosen not to register the Arabic language equivalent. Whether this has been as a result of the high costs of registering trademarks in the region or the perceived complexity of the processes involved is unclear.

In most Middle Eastern jurisdictions it is not a requirement for an international brand owner's trademark to be registered in Arabic only – it is possible for trademarks to be registered in Latin script alone or alongside the Arabic translation or transliteration of the original mark, as a combined mark.

Similarly, in the marketplace, international brands that have a presence within the Middle East may feature the Latin script alone or alongside the Arabic translation or transliteration of the mark – although these are not always registered. It is less common, however, for international brands to feature the Arabic version alone in the marketplace, except in countries such as Saudi Arabia.

Perhaps it is for these reasons that some international brand owners choose to rely on their protection for the English language (or Latin script) version of their trademarks only. However, problems can arise when it comes to asserting and enforcing these rights (eg in trademark infringement actions or opposition proceedings) against third parties using or attempting to register conflicting Arabic translation or transliteration marks. While in most Middle Eastern jurisdictions, the English language (or Latin script) trademark provides some degree of protection for the Arabic equivalent (translation or transliteration) – it is always easier to rely on and enforce 'like for like' language marks. Relying on the English (or Latin script) mark alone can therefore be an expensive and incomplete brand protection strategy.

There is some degree of protection afforded to well-known trademarks under Article 6*bis* of the Paris Convention, which

some Middle Eastern countries (such as Saudi Arabia, Iraq and the United Arab Emirates) have tried to incorporate into their trademark laws. Members have agreed 'to refuse or to cancel the registration, and to prohibit the use' of a translation of a well-known mark should it cause confusion. However, Article 6*bis* only applies to well-known trademarks and there is no definition within the Paris Convention as to what constitutes a well-known mark. Therefore, this provision can be difficult to rely on, leaving many marks exposed to infringement if the translation is not registered within the relevant jurisdiction.

The UAE Trade Marks Law extends this protection to earlier registered marks as well as well-known marks, with Article 3.14 stating that it is not possible to register 'marks that are considered to be *not more than translations* of *a famous mark or another previously registered mark* if the registration of the mark would cause confusion amongst consumers in relation to the products that are distinguished by the mark or similar products' [emphasis added]. Article 38 goes on to state that the use of such a mark constitutes a criminal offence punishable by way of a fine and/or imprisonment.

However, the degree of protection afforded to the Arabic translations of foreign language marks varies from country to country across the region.

The most notable issue when it comes to selecting an Arabic version of a trademark is whether to select the literal translation of the original English language mark (assuming it is a mark with a dictionary meaning, and not an invented word itself) or the transliteration of the original English language/Latin script mark into Arabic characters.

Translation vs transliteration

The literal translation of an English language trademark into Arabic will almost certainly be phonetically different from the sound of the original mark in English. Although there are a few words shared by both languages, these are relatively rare and most translations will sound very different. In addition, there may be more than one possible translation into Arabic for any given word, so care must be taken to select the most accurate and appropriate one.

Another problem with relying solely on trademark registrations for English language marks to provide protection for the Arabic translations is that, although the two versions may have the same meaning, in some jurisdictions, if a third party were to use or apply to register the Arabic translation of a mark, the marks may not be considered confusingly similar based on the visual and phonetic differences.

The other option is to protect the phonetic transliteration into Arabic characters of the original English language/Latin script mark. The biggest problem that can be faced when producing a suitable Arabic transliteration mark is that the Arabic and Latin alphabets are quite different – not all of the letters present in one are present in the other, and vice versa. For example, the letters 'G', 'P' and 'V' do not exist in the Arabic language. Therefore, when creating a transliterated version of a mark containing any of these letters, it is normally necessary to substitute the unavailable letter with 'the next best thing' – usually a similar-sounding letter. An example of this would be a word such as 'princess', in which the letter 'p' would typically have to be substituted for the Arabic equivalent of the letter 'b' – so the transliterated word would effectively read 'brincess'.

The other major issue is that transliteration is largely subjective and there may be more than one way to transliterate a mark into Arabic characters. For example, in order to convey the sound of the word 'bricks' in Latin characters, it could be written as 'brix', 'brics' or 'briks' – the same principle applies when transliterating words into Arabic characters. This introduces a vast scope for inconsistencies and it is important from the outset to ensure that care is taken to select the most accurate and appropriate transliteration and that this version is consistently used. If, for example, a brand owner registers one version of an Arabic transliteration yet ends up using another in the marketplace, this could call into question whether the trademark registration could become vulnerable to non-use cancellation. Furthermore, the use of more than one transliteration could produce uncertainty in the minds of consumers.

There is a risk that by not protecting the Arabic version of the mark by which a brand owner wants to be known, consumers will either not develop any real recognition for the brand or will develop their own inaccurate Arabic names when referring to the brand. If a number of groups develop a variety of names for the brand it will be very

difficult for the brand owner to then seek to control the development of brand identity within the market. By registering the correct Arabic version of its mark, the brand owner will ensure that consumers will have certainty as to the origin of the goods or services and build valuable brand equity.

Key issues

Brand owners with an established or intended presence in the Middle East should review their trademark protection to ensure that their marks are adequately protected and reflect their use in local markets. For the most part, there is no strict requirement for brand owners to register Arabic language versions of their marks. However, by doing so, brand owners should be able to enforce their rights against third parties more easily.

Generally, Arabic transliteration marks tend to hold more value and strength than Arabic translation marks. When selecting an Arabic language version of a mark (whether a translation or a transliteration) it is important to remember that there could be several potential variants. Therefore careful thought and consideration should be given to selecting the most appropriate variant for adoption and protection in local markets.

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Partial cancellation of well-known trademarks on the ground of non-use is possible according to the Turkish Court of Appeals

Articles 7/1(i) and 8/4 of Turkish Decree-Law No 556 Pertaining to the Protection of Trademarks are relevant to the protection of well-known trademarks and provide respectively that:

– applications identical to 'well-known marks according to 6*bis* of the Paris Convention, use of which is not permitted by their owners'; and
– applications 'where in the case of a registered trademark or of a trademark which has an earlier filing date for registration, the trademark has a reputation and where the use without due cause of the trademark applied for would take unfair advantage of, or be detrimental to the distinctive character or repute of the registered trademark or of the trademark with an earlier application date, upon opposition by the owner of the earlier trademark, the trademark applied for shall not be registered even to be used for goods and services which are not similar to those for which the earlier trademark is registered'

should be rejected.

A recent precedent of the Court of Appeals has established a principle of limiting the wide scope of protection of well-known trademarks and clarified the issue as to whether a well-known trademark could be cancelled for non-use for the goods or services other than those goods and services in connection with which it is well known.

In its decision numbered 2010/11-695 *Merit*, 2011/47 Decision and dated 9 February 2011, the General Assembly of Civil Chambers of the Court of Appeals upheld that pursuant to articles 14 and 42 of Decree-Law No 556, even well-known trademarks registered before the Turkish Patent Institute can be partially cancelled in terms of the goods and services on grounds of non-use for over a five-year period.

In the case at hand, the plaintiff claimed that he is the owner of the BELLONA trademark since 1956 for goods in class 30 and that his trademark is registered in many countries around the world and therefore his trademark should be considered as well known. The plaintiff's trademark application

was rejected by the Turkish Patent Institute on the ground that the identical trademark BELLONA was registered in the name of the defendant for classes 1 to 33. Consequent to the refusal of his application, the plaintiff filed a partial cancellation action for non-use against the defendant, by stating that the defendant never used its trademarks except for goods in class 20 during the preceding five years and alleged that the defendant was in bad faith.

At the end of the trial, the IP Court rejected the case, and held that although article 14 of Decree-Law No 556 provides that a trademark can be cancelled if it has not been used for a period of five years and that the said article does not provide an exception for well-known trademarks, articles 8/4 and 14 should be considered together and therefore claiming cancellation of well-known trademarks for goods or services that it has not been used for five years is contrary to the objective of the Decree-Law.

Following the plaintiff's appeal, the 11th Legal Chamber of the Court of Appeal reversed the decision based on the fact that pursuant to article 14 of the Decree-Law, the owner of the registered trademark is under an obligation to use its trademark and in that regard no exception is provided for or contemplated by the Decree-Law in favour of well-known trademarks in the said article. However, despite this dismissal decision, the first-instance court insisted on its initial decision. The plaintiff appealed the decision once again and the file was sent to the General Assembly of Civil Chambers of the Court of Appeals.

After giving a rough definition of well-known trademarks, the General Assembly of Civil Chambers of the Court of Appeals held that pursuant to article 8 of the Decree-Law and Articles 10 and 12 of Council Directive 89/104/EEC, which constitute the basis of the Decree Law, trademark owners are under an obligation to use their trademarks, as the trademark right provided by registration is only intended for those trademarks that are genuinely being used; and the sanction of violating 'the use obligation' is cancellation. The General Assembly of Civil Chambers of the Court of Appeals concluded that there is no exception embodied under the articles in question regarding well-known trademarks.

It was also mentioned in the decision that pursuant to Article 6*bis* of the Paris Convention and Article 16/2–3 of TRIPS, in order for well-known trademarks to be protected for goods and services other than the classes in which they are registered, provided that use of that trademark in relation to those goods or services would indicate a connection between those goods or services and the owner of the registered trademark and provided that the interests of the owner of the registered trademark are likely to be damaged by such use and that a similar provision so provides under article 8/4 of the Decree-Law.

Taking into consideration that the owner of a trademark is entitled to claim the prevention of someone else's trademark registration and/or usage and/or to file a cancellation action, if it has been registered for different goods and services, it is not possible to consider article 14 of the Decree-Law with the Decree-Law's other provisions that provide well-known trademarks a broader protection.

In other words, the Court of Appeals discussed the issue of the strength of a well-known trademark for constituting an obstacle for the registration of identical or confusingly similar trademarks for different goods and/or services and reached the conclusion that the fact that a well-known trademark is cancelled partially for the goods or services on which it was not used does not prevent this trademark owner from opposing third parties' identical or similar applications for such different goods and services. Furthermore, the Court of Appeals held that taking into consideration that the owner of a trademark is entitled to claim the prevention of someone else's trademark registration and/or usage, if it has been registered for different goods and services, it is not possible to consider article 14 of the Decree-Law with the same Decree-Law's other provisions that provide well-known trademarks a broader protection.

With regard to implementation of article 8/4 of the Decree-Law, the Court of Appeals had already set a precedent with its *Le Meridien v Meridyen Bilişim* decision dated 3 March 2007 and numbered 2007/5927E and 2007/9302K. According to that decision, even if the well-known status of the trademark is established, the court should be verifying whether the requirements of obtaining unfair benefit from or causing detriment to the distinctive character or reputation of the well-known trademark are established. When both decisions of the Court of Appeals are considered together, it can be concluded that although a well-known trademark can be partially cancelled for some of the goods or services present

in the scope of registration for which it is not used, it does not prevent the ability of an owner of a well-known trademark to take action against an identical or confusingly similar trademark application or trademark through an opposition or cancellation action provided that the conditions of article 8/4 of the Decree-Law persist.

In conclusion, the General Assembly agreed with the relevant Civil Chamber's decision and stated that pursuant to Articles 14 and 42, the trademarks registered before the TPI, which have reached a well-known status, can be partially cancelled with respect to goods and services for which they are not used, on the grounds of non-use. The decision of the Court of Appeals is final and binding and should be complied with by the first-instance court. The decision also forms a precedent for similar cases and should be followed by other courts.

The decision of the Court of Appeals has concluded the debate that was going on and seems to have put an end to the defences of well-known trademark owners as to the fact that the registration of a well-known trademark for goods or services for which the trademark is not used cannot be obtained, since this partial cancellation will not clear the way for registration of identical or confusingly similar trademarks for these goods belonging to third parties. In practice, this defence allegation was commonly used by well-known trademark owners whose trademarks were requested to be cancelled partially for non-use. It is possible that the decision may trigger actions based on non-use against well-known trademarks. Therefore, well-known trademark owners should develop new prosecution and protection strategies and consider more proactive measures to avoid dilution of their trademarks since registering their trademarks for all the goods and services may not provide the desired protection against registration of identical or similar trademarks for the goods and services that well-known trademarks are not used for in the long run.

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South Africa: has Treasury become greedy?

The Exchange Control Regulations were amended on 8 June 2012 to include within their ambit a prohibition on the export of any intellectual property rights (IPRs) without prior Exchange Control (Excon) approval.

Although the amendment appears at first blush to be a simple one, it is based on a lack of understanding of the nature of IPRs and is fraught with difficulties.

The Regulations have, since time immemorial, provided that no one may ('shall' in legislative speak), except with permission granted by Treasury, enter into any transaction whereby (a) capital or (b) any right to capital is directly or indirectly exported from the Republic.

The term 'capital' was not defined and the Supreme Court of Appeal in *Oilwell v Protec* came to the conclusion that the term as used in the Regulations did not encompass an IPR, such as a registered trademark.

In an attempt to undo one of the consequences of the judgment, the amendment defines 'capital' to include any IPR, whether registered or unregistered, and 'export from the Republic' as *including* the cession of, assignment or transfer of any IPR, to or in favour of a person who is not resident in the Republic.

This means that one may not enter into any transaction whereby an IPR or a right to an IPR is directly or indirectly 'exported', that is transferred (whether by cession, assignment or transfer or whatever) to or in favour of a non-resident.

It is suggested that designating any IPR as 'capital' is overbroad and unrealistic. For one, the term 'intellectual property' is vague and dangerously open-ended, a unanimous conclusion arrived at by an all-party committee of the Australian Parliament on 27 June 2012.

IPRs may be registered or unregistered. They could relate to the traditional forms such as patent, copyright, design and trademark rights. Importantly, however, they could extend to a

host of other possible rights, which may or may not be considered to be IPRs. These include performers' rights, personality rights and rights in respect of know-how.

Furthermore, although the right in and to a patent is an IPR, the 'right' in and to an invention is probably a mere expectation, which might crystallise into an IPR if and when a patent is granted. A South African who has invented something has no duty to patent it locally and may apply for a patent in any country of the world. An assignment of that right is also not disposal of local capital.

The next problem relates to the 'export' of an IPR. IPRs are territorial by their very nature and therefore it is not possible to export an IPR. A local IPR, when transferred to a non-South African resident is not 'exported', especially in the case of registered South African IPRs. They remain South African rights enforceable in South Africa only.

That leaves one with the exportation of a 'right' to IP. Apart from the fact that IPRs are territorial, they are also independent. What this means is that if someone applies for a patent in South Africa and also applies for a patent based on the same invention in the United States, two independent patents may be granted, one by South Africa and the other by the United States. They exist independently. They may belong to different parties.

Transfer of the rights in and to a patent or patent application in the United States consequently does not amount to transfer of a local capital asset and does not differ from the transfer by a South African of property located overseas to a non-resident. The Regulations can only apply to local IPRs.

Copyright provides a text-book example. It arises automatically in most if not all countries irrespective of where, and by whom, it is created. This means that each copyright work has its own independent copyright in every country that is a member of the WTO or the Berne Convention. It cannot be exported. The local copyright may be capital locally but it surely is not elsewhere.

Problems might also arise where an employee, resident in the Republic, is required to assign any IP developed during the course and scope of employment to the employer (a non-resident). In certain of these instances it is not a matter of contract law but by statute law the employer becomes the owner of the IPR created by the employee. A typical case would be that of copyright in a computer program. Is the employment contract a 'transaction'?

Another question that arises is whether the grant of a licence can amount to the exportation of an IPR. The relevant IP laws draw a clear distinction between licences and assignments but the use of the word 'including' may imply that licensing agreements might be covered.

A problem for academics in particular concerns those cases where the academic writes for a foreign publication or delivers a paper overseas. Often they are required to assign their copyright without remuneration. It could hardly have been the intention to require Excon approval for such an eventuality.

These are but a few examples that suggest that the net has been cast too wide, which will result in an unnecessary burden on the commercialisation of IP and lead to unnecessary litigation.

Finally, some constitutional issues should be considered. Excon regulations are promulgated by the President in terms of the Currency and Exchanges Act 9 of 1933. The Act was adopted during the Great Depression and under a completely different constitutional dispensation. It cut its teeth during the 1960s and 1980s in particular in an attempt to counteract the effects of international sanctions and to prevent the flight of capital.

The Act not only allows the President to make regulations in regard to any matter directly or indirectly relating to or affecting or having any bearing on currency, banking or exchanges but the President may suspend in whole or in part the Act itself or any other Act of Parliament or any other law relating to or affecting or having any bearing on those matters; and any such Act or law that is in conflict or inconsistent with any such regulation is to be deemed to be suspended insofar as it is in conflict or inconsistent with any such regulation.

One does not need to be a constitutional expert to realise that the latter power is inconsistent with the Constitution. It then raises the question whether the President did not make use of this power in promulgating the amendment because it in essence limits the right to transfer IPRs as expressly provided for in the various IP statutes.

In addition, apart from the fact that the amendment is counter to Excon's professed liberalisation of exchange control, it is arguably overbroad, discriminatory and irrational. For instance, there is no prohibition on the 'exportation' of other assets without Excon permission. Real estate or movables, whether income producing or not, may be sold to non-residents without consent. Why is it different for IPRs?

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Gaming law in Argentina: always a step behind?

The law governing the production and marketing of video games – and all their related online services – is usually enacted and implemented long after the games have been released. In Latin America, the gap between the marketing of video games and the development of their regulation is all the more pronounced owing to the failure of countries to enact an appropriate legal framework or, worse, because they attempt to regulate these types of product through existing legislation. This is the case in Argentina.

This article discusses the existing law in Argentina and – in broad terms – a comparison of the Argentinian experience is made with certain other Latin American countries.

Legal aspects involved in the production and marketing of video games

Video games and related online services are governed by different rules from the moment of their creation until they reach end-users, which often involves different countries, each with their specific regulatory frameworks.

First, it is important to note that video games are protected by IP laws. Such protection may encompass the video game software development, its designs/drawings and its trademark. All Latin American countries have this type of legal protection and similar provisions regarding: video game manufacturer's rights and obligations, legal effects of registration and duration of protection, among others).[1]

In this context, the commercialisation of video games is carried out through licence agreements usually between the manufacturer and the end-user, with standard clauses generally in favour of the former (ie restrictions on the reproduction and/or distribution of the video game, limitations of liability and warranty, etc). In order to understand the respective rights of the IP owners and the consumer, it is absolutely essential to carry out a careful analysis of the licensing terms of each particular video game.

In relation to infringement of the aforementioned licensing terms and/or piracy issues, studies carried out by the Business Software Alliance indicate that while the software piracy rate worldwide is 42 per cent, in Latin America it is 64 per cent.[2] International treaties and the local laws of most countries provide legal tools to defend video game manufacturers' rights against this growing problem.

From the regulatory perspective, the marketing of video games, especially advertising, and – when physical items are required – packaging and labelling, is usually subject to strict laws that may differ from one country to another. Video games materials must then be adapted on a case-by-case basis, or be compliant with many laws simultaneously. These considerations also extend to the hardware needed to play the video game.[3]

Indeed, most online gaming systems allow end-users to play the video game from servers around the world, which – despite what may be established in the licensing terms – triggers the possibility of multiple applicable laws and jurisdictions in the relationship with end-users and/or governmental authorities.

Personal data protection laws must also be considered. The compilation of personal data carried out when users 'log in' to make use of the product has been regulated by almost all countries in Latin America, with varying degrees of severity.

Video games regulation in Latin America

Not all Latin American countries – particularly, the Southern Cone – have specific regulations on video games. Disregarding Argentina (which is considered in detail in the following section), the regulations applicable to the relevant aspects in the manufacture and marketing of video games vary.

With reference to IP in general, the basic concept of software protection – including PC and game consoles – is the same. The laws of Brazil,[4] Chile,[5] Colombia,[6] Mexico,[7] Paraguay[8] and Uruguay,[9] among others, protect video games authors'/manufacturers' rights. Both the economic and moral rights of video games authors are legally protected in

all countries, for which the latters' consent is required for the reproduction of their video games. For details, advice should be sought from IP laws and lawyers in each country.

In relation to the treatment of personal data, the level of protection and regulation is fairly even in all Latin American countries. Safety principles are maintained, as well as trust and privacy in the compilation and processing of data.

Consumer protection in general terms – which may be applicable to video games – is also provided for extensively in the regulations of most countries of the Southern Cone.[10]

In relation to video games in particular, most Latin American countries do not have specific legislation. However, there are a few exceptions whose governments have enacted specific acts regarding video games: Brazil[11] (IP, guarantees and end-user licence agreements and marketing), Venezuela[12] (prohibiting advertising and distribution of war video games) and Colombia[13] (establishes a classification system to identify each video game according to a violence criteria) are examples of that.

Case of Argentina

Video Games Act

A fairly recent Act establishes that video games are required to bear the following mandatory statement – in the Spanish language – on their packaging: 'Overexposure is prejudicial for your health.' Additionally, all video games must be rated (as if they were films) by a national authority (the 'Family, Adolescence and Childhood Counsel' in connection with the 'National Institute of Cinematography and Audiovisual Arts') and the corresponding statements must be included on their packaging (PG-13, etc).[14]

Contravention of this Act could render a person liable to a fine of up to 200 times the price of the video game and up to 400 times when infringement is repeated. However, as implementing regulations for this law have not yet been finalised at the time of writing, in practice it is not yet applicable.

Consumer Defence Act

As with any other product or service delivered to end-users, video games are regulated by the Consumer Defence Act (CDA).[15] The provisions of this law cannot be waived by consumers. Among its several provisions, the CDA regulates:

1. end-user claims;
2. limitations to consumers' rights (abusive clauses); and
3. legal binding warranty support.

There are no specific requirements for handling end-user claims. However, the CDA[16] and the Civil Code Act (ACivC) recognise three ways in which customers may make a claim: in judicial proceedings; in administrative proceedings before the Consumers' Defence Authority; and in arbitration proceedings under the aegis of the CDA.[17]

In addition, the CDA provides that clauses (in a contract between consumers and manufacturers) that amount to a waiver or restriction of consumers' rights or expanding the scope of the rights of the other party are to be considered as not agreed. Consistent with this mandatory provision, Resolution 53/2003 as amended by Resolution 26/2003 refers to a list of abusive clauses that should be considered void and null. This provision limits the clauses that video games manufacturers may include in licensing agreements.[18]

It must be considered that manufacturers are jointly and severally liable with anyone involved in the chain of sale in respect of a product, including the trademark owner, distributors and resellers of the product. This joint and several liability covers:

1. six-month legal warranty; and
2. any damages caused by a defective product.

Product packaging must include a 'certificate of warranty',[19] with the following information in the Spanish language:

1. identification of the seller and/or manufacturer;
2. identification and technical specifications of the product;
3. conditions of use and maintenance of the product;
4. warranty conditions; and
5. conditions and place where the warranty repair should be performed.

Finally, it should be noted that a consumer who purchases a video game online has a ten-day period in which to retract from the purchase.

Marketing and Labelling Regulations

In addition to the mandatory statements required by the Video Games Act, the packaging of video games must meet certain generic requirements. The packaging, video game manual and every document included with the product needs to be written in Spanish, except for the non-Spanish

vocabulary frequently used in commerce, trademarks and other similar signs.[20] Manuals may be in English and other languages, as long as they are also in Spanish. Furthermore, the letters, numbers and symbols therein contained must be at least 1.8 millimetres (0.315 inches) high.[21]

Every video game released in Argentina must have printed on its packaging information regarding its title, technical specifications and the country where it was manufactured or produced.

It should be noted that, where misleading or deceptive products are detected by the Argentinian customs authorities, admission to Argentina of such goods may be denied.

Personal Data Protection Act

The Personal Data Protection Act[22] (PDPA) is also considered to be a matter of 'public order' – that is, it cannot be waived – and regulates the compilation of identifiable personal data provided by users when registering through a video game producer's website (usually a requirement for online gaming).

As a guiding principle, the PDPA declares illegal any data collection, treatment and/or assignment of data when the owner(s) of such data (ie video games users) has/have not given written consent.[23] This principle is not applicable when a dissociation mechanism is applied to data, so that data owners cannot be identified or associated to the data; or when data collection involves only name, domicile, date of birth and ID number of data owner.

Conclusion

The lack of specific regulations in regard to the manufacture and sale of video games in Argentina is shared with most Latin American countries. This causes uncertainty in an area of growing activity, in which video game manufacturers need to have a 'marketable video game' in different countries. Furthermore, the application of generic regulations such as consumer protection laws without considering the particularities of the video game industry is, some argue, the wrong approach.

A unified Latin American approach and common legal standard would definitely favour commerce in video games and benefit producers, retailers and consumers.

Notes

1 Argentina (Act 11,723), Spain (Royal Decree 1/1996 of 12 April), Chile (Act 17,336), European Union (Directive 2001/29/EC and Directive 91/250/EEC), Colombia (Decision 351 of the Commission of the Cartagena Agreement), Mexico (Federal Act on Copyright), Paraguay (Act 1,328/98) and United States (35 USC §101 and §102).
2 **http://portal.bsa.org/globalpiracy2010/downloads/study_pdf/2010_BSA_Piracy_Study-Standard.pdf**.
3 In China, game consoles are considered 'gambling devices' and are illegal. Nevertheless, in most countries – such as Argentina, the United States and the European Union – gaming consoles are considered legal.
4 Sections 1 and 2 of Act 9,609 of Brazil.
5 Section 3 of Act 17,336 of Chile.
6 Section 3 of Decision 351 of the Commission of the Cartagena Agreement.
7 Section 12 of the Federal Act on Copyright of Mexico.
8 Section 4 of the Intellectual Property Act of Paraguay.
9 Section 5 of Act 9,739 of Uruguay.
10 Brazil (Consumer Defence Code 1990), Chile (Act 19,496 – 1997) and Uruguay (Act 17,250 – 2000).
11 Act 9,609 of Brazil.
12 Prohibition of War Games and Toys Act of Venezuela.
13 Bill 030 (2008) passed by the Colombian Senate.
14 Section 1 of Act 26,043: Categories: (a) Apta Todo Público (All Audience); (b) Apta para mayores de 13 años (+13 years old); (c) apta para mayores de 18 años (+18 years old).
15 Even if video games are delivered free of charge, the CDA applies.
16 Section 52 of Act 24,240 of Argentina.
17 Section 59 of Act 24,240 of Argentina.
18 For example: (1) clauses provide that the judicial actions could be filed in a jurisdiction different from the one of the consumer's domicile at the time of the execution of the contract, except when it is established that judicial actions could be filed in the jurisdiction of the consumer's actual domicile at the time of the filing date; (2) clauses limiting the evidence to be offered by the consumer in a lawsuit, or shifting the burden of proof to the disadvantage of the consumer; and (3) clauses restricting the consumer's right to file certain judicial defences, challenging of authorities or any other remedy.
19 Section 14 of Act 24,240 of Argentina.
20 Section 4 of Act 22,802 of Argentina.
21 Section 1n in Res 906/98 of the Secretariat of Commerce of Argentina.
22 Act 25,326, enacted in October 2000, regulated by Decree 1, 558/2001 of Argentina.
23 The control authority is required to establish the requisites for giving consent other than by written form.

Why think Luxembourg for intellectual property management rights?

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In order to promote Luxembourg as a key centre for IP management rights, tax provisions were adopted by Luxembourg's Parliament in 2007. The legislation provides for an 80 per cent tax exemption on net income derived from certain IP rights and on capital gains resulting from the disposal of such IP rights and an 80 per cent deemed income deduction for self-developed patents. Thus, qualifying IP rights benefit from a 5.76 per cent corporate tax (in lieu of the 28.80 per cent standard corporate tax). This measure has been applicable in Luxembourg as of 1 January 2008.

Scope of application

The IP rights targeted by this measure are copyrights on software (other copyrights are not included), domain names, patents, trademarks, designs and models acquired or developed after 31 December 2007.

While other countries have enacted similar measures, the Luxembourg scheme appears to be broader, as it is not limited to patents, and is not subject to making any specific research investments.

Who stands to benefit from these measures?

The new regime will apply to fully taxable resident individuals carrying on a business, corporate entities, Luxembourg permanent establishments of non-resident companies and non-resident individuals carrying on a business in Luxembourg.

How does it work?

The new regime covers three different situations:

1. Eighty per cent of the net income received by a Luxembourg taxpayer (individual or company) for the use of, or the granting of the right to use, IP rights is tax exempt. The net income is determined by the gross income less all expenses that have a direct economic relationship with this income (including the annual depreciation and any write-downs having reduced the tax base of the taxpayer). Hence, this will lead to an effective tax rate of 5.76 per cent.
2. Capital gains realised on the disposal of the aforementioned IP rights will also benefit from an 80 per cent tax exemption.
3. A taxpayer who has himself registered a patent that is used in connection with his own activity is entitled to an 80 per cent tax exemption of the net income that he would have made if he had licensed the use of this right to a third party. The net income can be defined as the fictive remuneration reduced by all expenses that have a direct economic relationship with this income including annual depreciation and any write-downs. This provision aims at promoting research activities in Luxembourg and encouraging the protection of research and development discoveries via patent registrations.

The realisation value that should be used for the determination of the disposal gain in transactions between parties must be the arm's-length value. If no market value is available, the estimated market value of the IP can be determined according to any frequently used method for the valuation of IP rights.

A recapture regime will apply to the capital gains arising from the disposal of IP rights in order to avoid exempting a gain where the IP rights have generated losses that have been fully deducted.

Conditions

The application of the IP exemption regime is subject to the following conditions:

- the IP right must have been acquired or developed after 1 January 2008;
- expenses, amortisation and deductions for depreciation in direct economic connection with the IP must be recorded as an asset during the first year for which the benefit of this tax regime is claimed; and

- the exemption does not apply if the IP rights have been acquired from an 'associated' company. A company is considered as 'associated' to another if:
  - it directly holds at least ten per cent of the share capital of the company receiving the IP revenue;
  - its share capital is held directly by at least ten per cent of the company receiving the IP revenue;
  - at least ten per cent of its share capital is held by a third company, which holds directly ten per cent of the share capital of the company receiving the IP revenue.

When such a situation occurs, consideration as to the appropriate corporate structure might be required in order to meet this condition.

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Advertising at the Olympics – let the games begin!

The Olympics are a marketing bonanza, and companies pay millions of dollars to be counted among the official Olympic sponsors and to participate in the exclusive advertising that follows. The 2012 London Olympics kicked off on 27 July and the organisers have set the tone for combating unauthorised use of the 'Olympic' trademarks and other forms of 'ambush' marketing.

Olympic trademarks

There are several 'Olympic' trademarks, including OLYMPIC, OLYMPIAN, PARALYMPIC, PARALYMPIAN, LONDON 2012, the Olympic motto 'Citius Altius Fortius' (Faster Higher Stronger), the famous five-ring design and the London Olympic and Paralympic Games' mascots 'Wenlock' and 'Mandeville'.[3] In many countries, including in the United Kingdom, the Olympic trademarks are heavily protected property often enjoying special statutory protection. Any commercial use of the Olympic trademarks during the 2012 Olympics requires written authorisation from the International Olympic Committee (IOC) and the London Organising Committee of the Olympic and Paralympic Games (LOCOG). The IOC and LOCOG strictly control the use of the Olympic trademarks to ensure that they are properly used and to protect the massive revenues generated via the official Olympic sponsorship agreements.[4]

Combating ambush marketing

Sponsorship revenues provide the majority of the money needed to fund the over US$2 billion budget for the Olympics.[5] To protect the integrity of its sponsorship programme, the IOC typically requires Olympic host countries to enact special legislation that provides strict penalties for ambush marketing. 'Ambush' marketing is defined as activities by non-sponsor commercial entities that 'suggest that they or their products are associated with the [Olympics]' or that seek to exploit the public interest in the [Olympic] event by 'exposing their brands to spectators at the [Olympic] event and/or broadcast viewers' for commercial purposes.[6] Under the regulations, it is unlawful for any entity falsely to represent any association, affiliation, endorsement, sponsorship or relationship with the Olympics or Paralympics.[7] For example, the IOC states that unlawful association with the Olympics is likely if a non-sponsor advertises or markets goods or services in a manner that:

uses a combination of any of the following two words: 'games', 'two-thousand and twelve', '2012' and 'Twenty-Twelve'; or

uses any one of the previous words *and* the word(s) 'London', 'medals', 'sponsors', 'summer', 'gold', 'silver' or 'bronze'.[8]

Another example of 'ambush' marketing would include the unauthorised advertising, sale or distribution of a non-sponsor's products *for commercial purposes* in the

'Event Zones' and during the 'Event Periods'. An Event Zone is a designated area that includes the Olympic venues and the surrounding area. The Event Period typically includes at least one day prior to an event at a particular Olympic venue, as well as the day of the event. Although there are exceptions, distributing materials, displaying billboards, wearing or distributing clothing, holding up electronic devices (mobile phones) or wearing body paint (beware streakers!) in an Event Zone during an Event Period that display the brand of a non-sponsor for commercial purposes could all qualify as prohibited activity. Non-sponsors were advised to carefully review the Event Zone maps and Event Period schedules (see **www.london2012.com**) to avoid violating the regulations.

Exceptions to the above would include, for example, a person wearing a costume, clothing or body paint bearing a non-sponsored brand, or using an electronic device displaying a non-sponsored brand, if that person is not knowingly participating in an ambush marketing campaign.[9] In addition, persons that unknowingly become involved in an ambush marketing campaign (eg wears a hat given to him or her by someone else that bears a non-sponsored brand) will not be liable for violating the regulations as long as the individual ceases the activity on learning of involvement in an ambush marketing campaign.

The Olympic regulations also prohibit unauthorised 'trading' within the Event Zones. As defined, 'trading' includes street peddlers, entities providing public entertainment for gain or reward, entities providing retail, food and other services and even collecting donations for charities.[10] Again, exceptions exist, such as for merchants who, long before the London Olympics, established and continue to operate their business in an area that will be designated an Event Zone during the London Olympic Games.

Olympic authorities have stated that they will vigorously and strictly enforce regulations established to deter ambush marketing. According to the IOC, the strict anti-ambush marketing regulations ensure that official Olympic sponsors gain full advantage of their investment, generate revenue for the Olympics and support an enjoyable and welcoming environment for spectators.

Of course, there are always non-Olympic sponsor entities who try to find creative avenues for promoting their brands during the Olympics without violating anti-ambush marketing regulations. In addition, some non-sponsor entities are extremely aggressive in promoting their brands during the Olympics even with the risk of violating anti-ambush marketing regulations owing to the sometimes massive amount of publicity generated from the 'ambush'.

Notes

* Susan Natland is a partner in the Orange County office of Knobbe Martens Olson & Bear. Ms Natland focuses her practice in all aspects of domestic and international trademark, unfair competition and copyright matters. Her practice includes domestic and foreign trademark selection and clearance, trademark procurement and prosecution, ex parte and inter partes proceedings before the Trademark Trial and Appeal Board, trademark audits, intellectual property licensing, domain name disputes, counterfeit goods and customs, copyrights, entertainment law, rights of publicity, and trademark and copyright enforcement and litigation. Ms Natland had the unique opportunity to work as virtual in-house trademark counsel for a major internet retailer for almost two years, providing her with invaluable hands-on insight and understanding of business concerns and drivers. Providing clear, practical legal advice and business solutions is at the core of her practice.

** Gregory Phillips is an associate in the Orange County office of Knobbe Martens Olson & Bear. His practice includes counselling clients with their domestic and international trademark matters, including: clearance, registration and enforcement; federal trademark litigation; petitioning and defending opposition and cancellation matters in front of the US Trademark Trial and Appeal Board; copyright registration and enforcement; and petitioning and defending Uniform Dispute Resolution Policy disputes in connection with domain name registrations. Mr Phillips' practice also includes trademark and copyright licensing and due diligence projects.

1 'Using the Brand' (available at **www.london2012.com/about-us/our-brand/using-the-brand**).

2 *Ibid.*

3 'Brand Protection, Non-Commercial Organisation – What you Need to Know', The London Organising Committee of the Olympic Games and Paralympic Games Ltd (August 2010) (available at **www.london2012.com/documents/brand-guidelines/guidelines-for-non-commercial-use.pdf**)

4 'Advertising and Trading, Detailed Provisions of the Advertising and Trading Regulations', Olympic Delivery Authority (November 2011) (available at **www.london2012.com/mm/Document/Publications/General/01/24/09/42/detailed-provisions-of-the-advertising-and-trading-regulations.pdf**).

5 'Using the Brand', note 1 above.

6 Brand Protection, London 2012's UK Statutory Marketing Rights, April 2010 (available at **www.london2012.com/mm/Document/Publications/General/01/24/71/64/statutory-marketing-rights_English.pdf**).

7 'Advertising and Trading, Detailed Provisions of the Advertising and Trading Regulations', note 4 above.

8 *Ibid.*

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Launch of non-Latin script domain names prompts review of brand owners' strategies

On 13 June 2012, details of 1,930 applications for new, top-level domain name extensions (or strings) were released by the Internet Corporation for Assigned Names and Numbers (ICANN), the body responsible for the management of domain names.

Included in these applications are 116 non-Latin script strings, commonly known as internationalised domain names (IDNs). The introduction of these top-level IDNs will affect the way in which brand owners market their products, as the internet becomes more accessible to those that are literate only in Arabic (or in another language that does not use Latin characters).

With over 200 million native Arabic speakers and over 800 million native Chinese speakers, the impact on brand owners that wish to communicate with a global audience will be very significant. Brand owners should review their trademark registration and protection strategies to ensure that they have appropriate protection for foreign language versions of their key trademarks.

Applications for new strings

The introduction of new, top-level strings is set to expand the existing infrastructure of the internet from 22 top-level strings (including '.com' and '.org') to many hundreds, including:

- IDN strings (eg, '.com' and other top level strings in Arabic, Chinese, Cyrillic and other non-Latin scripts);
- branded strings (eg, '.amazon', '.apple', '.citi' and '.mcdonalds');
- community strings (eg, '.bank', '.hotel', '.islam' and '.tennis');
- generic strings (eg, '.app', '.cloud', '.music', '.tickets', '.you' and '.weather'); and
- geographical strings (eg, '.nyc', '.dubai' and '.abudhabi').

Much of the commentary regarding the introduction of new, top-level strings focuses on the decisions of international brand owners to apply (or not) for their own top-level domains (in the form of '.brand'). However, the strings applied for cover a much broader range than simply a number of specific brands, with IDNs potentially being one of the areas where the biggest impact will be felt.

Local language strings (IDNs)

An IDN is a domain name that contains non-Latin script characters, such as those used in Arabic, Chinese, Cyrillic or Japanese. It has been possible to register partial IDNs from as early as 1998 – these include non-Latin script characters before the dot and Latin characters after the dot (eg 纯水.com). This was followed in 2009 by the introduction of country-level IDNs, such as 'السعودية.' ('.saudi') and 'امارات.' ('.emarat').

However, unsurprisingly, the uptake of country-level IDNs has been relatively slow, presumably reflecting the fact that, even in the English language, brand owners often prefer to engage with users through top-level ('.com') websites, rather than at a country level ('.ae' or '.sa'). In the Middle East, it can be administratively time-consuming to register country-level domain names, which may also have played a role in the relatively low uptake of country-level IDNs.

The launch of the new IDNs has the potential to shake up the way the internet is navigated in non-Latin script languages. For example, a brand owner that wishes to reach an audience across the Middle East will be able to do so through a fully Arabic website, which includes a top-level Arabic language website address. Previously, the only option has been to communicate through a website with a 'traditional' '.com' address or through a country-level, Arabic language address (such as 'امارات.' or '.emarat').

Impact of top-level IDNs

It appears likely that the owners of the new top-level IDNs will compete to promote their IDNs with consumers and website operators alike and that over time one IDN (per language) will become more dominant than the others. In the interim, brand owners will need to decide whether to register domain names for:

- the specific IDNs that they anticipate will become the equivalent of '.com' in each non-Latin script; or
- multiple IDNs, on the basis that only time will tell which IDN will become dominant.

Regardless of which strategy is adopted, it is important for brand owners to review their trademark protection in Arabic and other non-Latin languages to ensure that enforcement action can be taken against the unauthorised use of their trademarks in other languages. This protection is likely to become increasingly important as the use of such languages becomes more prevalent following the introduction of IDNs (regardless of which IDNs are more successful).

Timing and processes

The new strings are unlikely to be launched before mid-2013, as before the applications can be formally approved by ICANN they must first be subjected to a comments and objections phase. ICANN is taking steps to protect brand owners by requiring the companies that have secured rights to the new top-level domains to:

- implement a sunrise registration period to provide brand owners with a window of priority to register domain names before the registration process is opened to the public; and
- participate in a trademark clearing house to enable brand owners to record trademarks and receive notifications of proposed registrations of domain names, which incorporate their marks.

With potentially hundreds of new, top-level strings available, it is unfeasible for brand owners to secure defensive registrations across all of these new strings. Brand owners should therefore focus their domain name registration strategy on the top-level domains that are most relevant to their businesses. For brand owners with a global or regional presence, a focus on IDNs may be appropriate.

Brand owners should also ensure that they are in a position to take effective enforcement action in relation to the unauthorised use of local language translations and transliterations of trademarks. It is important in this context to note that, in many countries, the registration of an English language trademark does not automatically provide protection for the corresponding Arabic language mark.

Securing trademark protection in Arabic and other non-Latin script languages is a key step for brand owners in being able to take effective action to prevent third parties from misusing their trademarks in foreign languages, whether as part of a domain name registration, on a website or in some other form.

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New members

Since the last IBA Annual Conference in Dubai, we have had 85 new members join the IP and Entertainment Law Committee. They are:
Asikiya Adebola (A B Kalaiwo & Associates, Nigeria), Adebowale Afolabi (A'riola & Associates, Nigeria), Girindra Agrawal (Barque Hotels Pvt Ltd (Accor Hospitality), India), Olurotimi Aju (Consolex Legal Practitioners, Nigeria), Annabelle Angarita (Posse, Herrera & Ruiz Abogados, Colombia), Mauricio Becerra de la Roca Donoso (Becerra de la Roca Donoso & Asociados, Bolivia), Matthew Blake (Hagen Streiff, Newton & Oshiro, US), Edouard Bloch (Wilhelm & Associes, France), Athanasia Braimi (Greece), Andrew Bridges (Fenwick & West, US), Susan Bruning (Southern Methodist University, US), Gastón Buquerín (Bulló – Tassi – Estebenet – Lipera – Torassa Abogados, Argentina), Helena Camargo (Posse, Herrera & Ruiz Abogados, Colombia), Patrick Cantrill (Walker Morris, England), Pietro Castronovo (Orrick, Herrington & Sutcliffe, Italy), Soheui Choe (Samsung Electronics, South Korea), Marcus Clinch (Eiger Law, Taiwan), Lisabeth Coakley (US), Sinead Curtin (McCann Fitzgerald, Ireland), Lara Dagher (Lebanon), Renato D'Andrea (BDA Studio Legale, Italy), Luke Dauchot (Kirkland & Ellis, US), Faisal Daudpota (Daudpota International, Pakistan), Rodrigo Affonso de Ouro Preto Santos (Ouro Preto Advogados, Brazil), Jose Dominguez Leandro (Ernst & Young Abogados, Spain), Pierre-Andre Dubois (Kirkland & Ellis International, England), Shinsuke Ebato (Nagashima Ohno & Tsunematsu, Japan), Daniele Ferretti (Roedl & Partner, Italy), Skuli Fjeldsted (Fjeldsted, Blondal & Fjeldsted, Iceland), Robert Freitas (Freitas Tseng & Kaufman, US), Maria de Los Angeles Gonzalez (Gomez-Pinzón Zuleta Abogados, Colombia), David Harth (Perkins Coie, US), Safak Herdem, HERDEM&Co Attorneys At Law, Turkey), Ian Heyman (US), Shinsuke Hiratsu (Nagashima Ohno & Tsunematsu, Japan), Steven Hoffer (Law Offices of Steven Hoffer, US), Caroline Ibharunease (Carol Ibharuneafe & Co, Nigeria), Yumiko Ichige (Nozomi Sogo Attorneys at Law, Japan), Jorge Jaeckel (Posse, Herrera & Ruiz Abogados, Colombia), Susan Kaggwa (Impala Legal Advocates & Consultants, Uganda), Małgorzata Kozak (Poland), Masato Kumeuchi (Nagashima Ohno & Tsunematsu, Japan), Lucy Leal (International Bar Association, Brazil), Valerie Levy (Wilhelm & Associes, France), Tania Liberman (KLA Advogados, Brazil), Santiago Lizarralde (Gomez-Pinzón Zuleta Abogados, Colombia), Anthony Lupo (Arent Fox, US), Kristine Madsen (Bull & Co Advokatfirma AS, Norway), Markku Makinen (Hammarstrom Puhakka Partners Attorneys Ltd, Finland), Lekolota Makua (South Africa), James Martin (Field Fisher Waterhouse, England), Maximiliano Marzetti (Professor of Law & Economics at Latin American School of Social Science , Argentina), Dea-Rae McDonald (Kyriakides Georgopoulos & Daniolos Issaias, Greece), Onyebuchi I Esther Mgbeken (McConnell Properties & Investment Ltd, Nigeria), Weiguo Min (D & S Law Firm, China), Asma Muttawa (OPEC, Austria), Yutaro Nishizawa (Anderson Mori & Tomotsune, Japan), Gloria Nweze (Gloria Nweze & Co, Nigeria), Takako Onoki (White & Case, Japan), Gabriella Ormai (CMS Cameron McKenna Budapest Office, Hungary), Paulo Parente Marques Mendes (Di Blasi, Parente & Associados, Brazil), François Petit (Ober & Beerens, Luxembourg), Denis Puchkov (Attorneys at Law, Russian Federation), Ligita Ramanauskaite (Nordia Baublys & Partners, Lithuania), Julien Rivet (Berthezene Nevouet Rivet, France), Jesper Rothe (Bech-Bruun, Denmark), Fraser Roy (Workman Nydegger, US), Mabvuto Sakala (Corpus Legal Practitioners, Zambia), Nikhil Shanbhag (Google Inc, US), Sajai Singh

(J Sagar Associates, India), Richard Stark (Cravath, Swaine & Moore, US), Shinichi Sugiyama (Harago & Partners Sugiyama Dept, Japan), Huzefa Tavawalla (Nishith Desai Associates, India), Tülin Tomurcuk (Tomurcuk Law Office, Turkey), Rob Van de Laar (Confucius Law Firm, Netherlands), Elvijs Vebers (Aigars Lusis Office, Latvia), Ainhoa Veiga-Torregrosa (Araoz & Rueda Abogados, Spain), Konrad von Finckenstein (Canada), Les Weinstein (Les Weinstein ADR Services, US), Douglas Wickham (Littler Mendelson, US), Pascal Wilhelm (Wilhelm & Associes, France), Hervé Wolff (LG@VOCATS, Luxembourg), Manoj Yadav (Manoj Yadav, India) and Ruslan Yakupov (Ruslan Yakupov, Russian Federation).

I thought it would be a nice idea for the readers of this newsletter to know something about the new members of our Committee.

To this end I prepared a questionnaire with the following questions:

1. What was your motivation to become an IP lawyer?
2. What are the most memorable experiences you have had so far as an IP lawyer?
3. What are your interests and/or hobbies?
4. Please share with us something that the members Committee would be surprised to know about you.
5. As this survey will be published in the IP and Entertainment Law Committee Newsletter, do you have any specific message for other members of the Committee?

The questionnaire was sent out by the IBA to the new members and I have summarised below for our readers some of the responses.

In reply to the question that asked what motivated our new members to become IP lawyers, many felt that the field was tremendously varied, interesting and one of the most engaging fields of law where no two days in practice are ever the same. Others felt that IP law provides an opportunity to work with talented and creative minds, which is, in itself, a reward. Other new members stumbled on the field by accident but then grew to enjoy it so much that they never left.

Memorable experiences in the field of IP law included: being thoroughly involved in clients' projects, which made every such client matter a very memorable experience; being invited by WIPO-WTO to Colloquium for Teachers of Intellectual Property in Geneva and Singapore to share insights on how to update IP law worldwide; multinational litigation in various jurisdictions; and the thrill of victory through perseverance and hard work.

Our new members have some varied interests and hobbies. These include sailing, gardening, theatre, playing guitar, dancing, cooking, travelling and yoga to name a few.

One of the most unusual facts we learnt about a new member was being an instructor of Krav Maga, an Israeli method of self-defence, a very interesting revelation.

Our new members also had some thoughts to share with us:

- 'think as differently as possible from other people';
- 'think outside the box'; and
- 'a company's IP and workforces are its most valuable assets.'

In my capacity as an Officer of this committee, and on behalf of the other Officers of this Committee, I would like to warmly welcome all our new members and hope that you will find your membership of this Committee both enjoyable and rewarding. We look forward to your active participation in the work of this Committee, which is both intellectually stimulating and rewarding.

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Summary of WIPO's Standing Committee on Copyright and Related Rights Twenty-Second Session: Geneva, 15 to 24 June 2011

The Standing Committee on Copyright and Related Rights (SCCR) discussed the following three topics:

1. protection of audio-visual performances and transfer of rights;
2. access for the blind, visually impaired and persons with print disabilities;
3. broadcasting organisations.

Protection of audio-visual performances and transfer of rights

The last outstanding issue concerning the transfer of rights within the ambit of the protection of audio-visual performances was addressed during a meeting of WIPO's SCCR in June 2011 in Geneva.

This was the last article out of 20 of the provisional agreement that was still under negotiation.

Thus, WIPO's top copyright negotiating body called for the resumption of a Conference on the Protection of Audio-visual Performances, which signalled the entry into the final phase of treaty negotiations.

This international instrument would strengthen the rights of performers in the audio-visual industry, both in traditional media and in digital networks.

This step would enhance the current protection provided by the WIPO Performances and Phonograms Treaty (WPPT) and the Rome Convention, which grant protection in relation to sound recordings of performances.

Access for the blind, visually impaired and persons with print disabilities

Better access to copyright-protected works for the blind, visually impaired (VIP) and other persons with print disabilities was also discussed and many proposals were submitted. Mr Manuel Guerra Zamarro, Chair of the SCCR and Director of the Mexican Copyright Institute, was asked to prepare a text on this issue (document SCCR/22/16), which would constitute the basis for the future text-based work to be undertaken by the Committee in its 23rd Session.

Broadcasting organisations

Discussions were also held around the issue of broadcasting organisations, in order to update the rights of broadcasters currently defined in the 1961 Rome Convention, in the light of growing piracy issues and new distribution channels through the internet. The aim was to review and update existing international standards and ensure an appropriate balance between the interests of all stakeholders and those of the general public. The Committee reaffirmed its commitment towards developing an international treaty to update the protection of broadcasting and cablecasting organisations in the traditional sense.

For further information see: **www.wipo.int/pressroom/en/articles/2011/article_0018.html** and **www.wipo.int/edocs/mdocs/copyright/en/sccr_22/sccr_22_ref_conclusions.pdf**.