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editorial

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In this issue we kick off with the second round of the dispute between Arsenal FC and the trader selling unofficial merchandise which has reached a surprise outcome in the High Court. We then look at attempts to register shapes and smells as trade marks before moving on to the ownership of copyright in legal precedents, modernisation of the English patents system and finally the problems of defective software.

If you have any comments on the topics covered, please share your thoughts with us by contacting Sandra McDonald (sandra.mcdonald@nortonrose.com) or by mail at the address on the back cover.

If you would prefer not to receive further mailings, would like to correct your contact details or have a colleague who would like to receive the newsletter, please contact Sarah Gilbert (sarah.gilbert@nortonrose.com) or by mail at the address on the final page.

one-all

in Arsenal v Reed

Will a Court of Appeal tie-breaker be the next fixture?

Mr Reed sells unofficial Arsenal football souvenirs and memorabilia at a stall outside Arsenal's ground, much of it bearing the words ARSENAL and THE GUNNERS. Arsenal football club owns a number of registered trade marks for ARSENAL and ARSENAL GUNNERS. Despite the fact that the stall displayed a sign stating that the words or logos on the goods that Mr Reed sold did not imply any affiliation or relationship with the manufacturers or distributors of any other product, Arsenal sued him for trade mark infringement and passing off.

At the initial hearing in the High Court, the judge took the view that Mr Reed was not using ARSENAL or THE GUNNERS as trade marks, but simply as badges of support, loyalty or affiliation. However, since there is uncertainty as to whether use in this way infringes a registered trade mark, the High Court made a reference to the European Court of Justice (ECJ) for clarification of the law.

The ECJ's decision was that, where a mark is used in circumstances where it is not intended, and was not understood by the public, to be a designation of origin, there was no infringement because that use did not prejudice the essential function of the mark, which is to guarantee the identity of the origin of the marked goods or services to the consumer.

However, the ECJ went on to state that the use of the word ARSENAL on the goods in the present proceedings created the impression that there was a material link in the course of trade between the goods and the trade mark proprietor, even though there was no guarantee that all the goods bearing the mark ARSENAL had been manufactured or supplied under the control of a single undertaking which was responsible for their quality. Indeed, it was common ground that the goods did not come from the claimant or from its approved resellers. As a result, the use of a sign identical to the registered trade mark was liable to jeopardise the guarantee of origin which constituted the essential function of the mark, and was consequently a use which the trade mark proprietor could prevent.

The case then returned to the UK High Court where Arsenal applied for summary judgment on its claim. However, Mr Reed successfully argued that the ECJ had exceeded its jurisdiction and that its ruling should not be followed, since it had not restricted itself to its function of clarifying the law but had made findings of fact which were contrary to those which had already been established by the High Court. In particular, the impression which was created by the mark, the likelihood of confusion in the market place and whether the use of the sign would affect the guarantee of origin of the goods, were all matters of fact to be determined by the National Court.

The court applied the ECJ's guidance on the law to the findings of fact that it had made and found that Mr Reed had not infringed Arsenal's trade marks. The court recognised that this was an unattractive outcome, putting its own decision at odds with that of the ECJ, but indicated that there was still the possibility of an appeal by the claimant on the court's findings of fact to the Court of Appeal.

Reference: *Arsenal Football Club Plc v Reed* (Case C-206/01), European Court of Justice, 12 November 2002 and [2002] EWHC 2695 (Ch)

Viennetta trade mark rejected

Unilever, the owner of Walls ice cream, applied to register two three-dimensional shaped marks in the UK in respect of ice cream desserts in the shape of their product Viennetta.

The two marks were essentially the same, except that one had dark chocolate on the top. The applicant supported them with evidence of use; they were accepted by the Trade Marks Registry and then advertised.

Nestlé opposed registration on the grounds that the marks were devoid of distinctive character and that they were also signs that consisted exclusively of a shape that resulted from the nature of the goods themselves. Walls countered this by relying on the proviso in section 3, Trade Marks Act 1994, that allows registration of a sign which has, in fact, acquired a distinctive character as a result of the use made of it. In the Trade Marks Registry, the Hearing Office rejected the opposition to the dark chocolate mark, but upheld it in relation to the white chocolate mark.

Both sides appealed to the High Court, which held that, in the case of marks consisting of the shape of a product, it was not enough to prove that the public recognised them as the product of a particular manufacturer. An applicant had to prove that consumers regarded the shape alone as a badge of trade origin. Here, although it was clear that the product's appearance had achieved considerable recognition as denoting Walls' Viennetta, Walls had not shown that the shape itself denoted trade origin or that the public relied upon it for that purpose. There was a difference between product recognition and the distinctive character required for a three-dimensional sign. On the evidence, the shape was not sufficiently distinctive since a minor, but nevertheless significant, proportion of the public would take it to denote the goods of other traders. Accordingly, registration was refused.

However, recognising that the law on three-dimensional marks was unclear, the judge made a reference to the ECJ on the question of whether product recognition is sufficient to allow registration of a shape mark, and if it is not, what test for distinctiveness should be applied for a three-dimensional mark.

It is a high threshold to be able to demonstrate that consumers rely on the shape of a product (or its packaging) as a badge of origin, rather than the more usual case of recognising distinctive or unusually shaped products as an adjunct to a brand name. The courts, both here and at the European level, have agreed that consumers are predisposed to view a word or device mark on goods as being a badge of origin, but that they are less likely to recognise the shape or packaging of goods alone as conveying the same message. In practice, only marks which are both very well known (through use) and also inherently highly distinctive are likely to be able to pass the test. So, for example, there are existing UK registrations for the shape of the curved Coca Cola bottle, Morgan motor car and Bombay Sapphire gin bottle, all of which are sufficiently distinctive in themselves to be recognised as denoting trade origin.

Reference: *Société des Produits Nestlé SA v Unilever plc* [2002] EWHC 2709 (Ch)

wake up
and smell the trade mark

Difficulties also arise in relation to the registration of smells as trade marks. In a recent case in the German Trade Mark Office, the question arose as to how an applicant can satisfy the requirement in the European Directive (89/104) to approximate the laws of Member States relating to trade marks, that a trade mark be capable of being represented graphically when the mark applied for is in fact a smell.

Herr Seickmann applied to register a scent that he described as "balsamically fruity with a slight hint of cinnamon". He accompanied his application with the chemical formula for the substance and an odour sample as well as the written description of the sign.

The German Trade Mark Office referred a question to the ECJ as to whether a trade mark had to be reproduced directly in a visible form, or whether signs which could not be perceived visually by themselves, but which could be reproduced indirectly using certain aids, could also qualify for registration.

The ECJ stated that the Directive was to be interpreted as meaning that a trade mark could consist of a sign which was not capable of being perceived visually, provided that it could be represented graphically. The graphic representation had to enable the sign to be precisely identified. Graphic representation defined the mark, allowed it to be entered in a public register and allowed users of the register to determine the precise nature of the mark so that it was guaranteed as an indication of origin and avoided any element of subjectivity in the process of identifying and perceiving the sign.

In respect of a smell mark, a chemical formula was not sufficiently intelligible, nor was it sufficiently clear and precise. Although a description was a graphic representation, that also was not sufficiently clear, precise or objective. The deposit of a sample did not constitute a graphic representation and was, in addition, not sufficiently stable or durable. Since each of the three representations which had been put forward was incapable by itself of satisfying the requirements of graphic representation, the combination of all three also failed to satisfy the requirement.

This statement of what does not constitute a sufficient graphic representation of the mark leaves the conundrum of how a smell can ever be represented graphically, despite the statement that such marks are in theory registrable.

The UK Trade Marks Registry has accepted at least one odour mark for registration: a company has obtained registration of "the strong smell of bitter beer applied to flights for darts", although other applications have failed, including one for "the smell, aroma or essence of cinnamon" in respect of furniture. In the latter case, on appeal to the UK High Court, the judge rejected the application on the basis that the description presupposed that the reader already knew what cinnamon smelt like. Therefore it could not stand alone, and it also lacked precision because it allowed a degree of subjectivity in determining what the mark was.

However, the judge did indicate that an application to register the smell of cinnamon as emitted by x –where the nature and condition of x was clearly and unambiguously defined – would have been capable of satisfying the requirement for graphic representation if x was, and was likely to remain, generally accessible for use as a benchmark of the specified smell. Although the cinnamon case predates the ECJ case considered here, if that approach were to be adopted with, for example, x being defined as bark from *cinnamonum zeylanicum* (or whatever species of cinnamon is required, there being several), then this might offer a way round the apparent impasse created by the ECJ in the Sieckmann case, at least in respect of natural-based smells.

It is also interesting to note that OHIM (the central body responsible for administering the Community Trade Mark) has accepted a registration for "the smell of fresh cut grass" applied to tennis balls, on the basis that this was an adequate representation of the mark since: "the smell of freshly cut grass is a distinct smell which everyone immediately recognises from experience". That registration was granted in 2000 and was not referred to or discussed in the *Sieckmann* case. Following the ECJ's decision, this registration, together with the few other successfully registered smells, may find itself vulnerable to revocation.

Reference: *Sieckmann v Deutsches Patent-und Markenamt Case* C-273/00, European Court of Justice, 12 December 2002

copyright infringement for use of legal precedents from third parties

This case concerned the documentation for extended warranty schemes sold by electrical retailers to consumers.

Three individuals set up an Isle of Man company, Unicorn, as an offshore service company contracting directly with the consumer for repairs under the warranty, with the consumer's money going into a trust fund to meet the repair costs, and any surplus eventually being distributed to the scheme participants.

Unicorn instructed solicitors to draft the necessary documents for the scheme: a collections account agreement (the CAA) and a service agreement between the claimant and the consumer. In doing so, Unicorn's solicitor based the CAA on a trust document for the mining industry which he had drafted in his previous employment with an Isle of Man bank.

Unicorn presented the scheme and documentation to the electrical retailer, Scottish Power, and to the defendant which was the administrator of Scottish Power's then current extended warranty scheme. A confidentiality agreement was signed between the parties to cover disclosure of the documents. Over the next six weeks, a number of meetings, negotiations and amendments to the CAA then took place, with the solicitor for Scottish Power taking the lead in re-drafting the CAA to suit his client's requirements and to meet the comments of the other parties. Following the conclusion of the deal with Scottish Power, Unicorn successfully sold the scheme to other retailers, using the final documents from the Scottish Power deal.

Subsequently Unicorn joined forces with an insurance company to secure greater financial backing and assigned its intellectual property rights to a company called USP Strategies Ltd.

At the beginning of 2000, USP and the defendant were competing directly for a contract to run the extended warranty scheme of the electrical retailer Powerhouse. In the course of its negotiations, the defendant sent Powerhouse's solicitors a copy of the final form of the CAA used for Scottish Power, but with the names of the parties removed.

USP discovered the disclosure and alleged infringement of copyright and breach of the confidentiality agreement.

The judge hearing the case found that copyright in the original draft CAA was clearly owned by USP (as Unicorn's assignee) but that copyright in the final version was jointly owned by USP, Scottish Power and possibly also the defendant, on the basis that they had all contributed to its production. Although the law is clear that one joint owner cannot exploit his copyright without the consent of the others, the defendant had not made any counterclaim on this basis in the proceedings. As a result, the slightly artificial question which remained to be answered was whether the defendant had infringed copyright in the original draft by sending a copy of the final draft to Powerhouse. Without giving detailed reasons, the judge found that it was clear that the substance of the original draft was reproduced in the final version and that, by sending it to Powerhouse, the defendant wrongly appropriated the skill and labour of the solicitors who had originally drafted it for Unicorn and so infringed the copyright, now assigned to USP.

The judgment raises intriguing issues – first, in relation to ownership of copyright. In the absence of an agreement to the contrary, copyright in a literary work is owned by its author – in this case Unicorn's solicitors. Unicorn would have a licence to use the document but there is no discussion in the case of how Unicorn came to own and assert the copyright. On normal principles, in order for ownership of copyright to have changed, an assignment would be necessary, but this is not mentioned in the case and, moreover, an assignment would create quite an odd situation. If a solicitor drafts a document based on one of his own precedents, the assignment of copyright to the client in the final commercial version of the document would result in the solicitor being unable to use his own precedent again for other clients without infringing the copyright of the original client – an unworkable result.

On the issue of joint ownership, if a document has been heavily amended by a number of parties, then it is possible that the copyright in the final version is jointly owned by all the participating solicitors, provided that each made a substantial contribution and those contributions were not distinct from one another. However, as a matter of practice, this again creates an odd situation in which none of the firms would be able to use the final version as a starting point for drafting a similar agreement for a subsequent client, a position which may be honoured more in the breach than the observance.

Reference: *USP Strategies & another v London General Holdings Limited & others*, Chancery Division, HHJ Weeks, 8 November 2002

modernisation of the patents system

The Patent Office has issued a consultation paper on a number of wide-ranging amendments to the Patents Act 1977.

A number of changes to the Act are required as a result of the agreement of a new text of the European Patent Convention (EPC) which was adopted in June 2001. However, the consultation paper goes wider than the changes required to implement the new EPC and seeks to modernise the Patents Act at the same time.

The main changes and proposals are as follows:

- Allowing patents for further medical uses of known pharmaceuticals to be claimed directly, rather than under the current artificial 'Swiss-style' procedure
- Amendments to the Protocol to Article 69 concerning the extent of protection, in order to introduce a doctrine of equivalents. In future, when determining the scope of protection afforded by the claims of a patent, account is to be taken of equivalence to any element contained in the claims
- Introduction of a right for a proprietor to apply to the European Patent Office (EPO) for revocation of his patent, or a limitation of the claims. A similar right will also be introduced to allow claim limitation in national proceedings with the consultation document seeking views on whether the present position, in which amendments are discretionary, should be changed to allow amendments to be made as of right
- Views are sought on whether the current provisions for rewarding an employee inventor, in circumstances where an invention has been of outstanding benefit to the employer, should be revised
- Encouraging parties to have infringement proceedings determined by the Comptroller rather than by the courts, by removing the current requirement that these can only be brought with the defendant's agreement. However, no change to the remedies which can be claimed before the Comptroller is proposed, so that these will remain limited to damages and a declaration of validity/infringement. Injunctions will remain unavailable
- Removing an anomaly in the provisions relating to actions dealing with threats so that threats made against a manufacturer who also sells a product will not be caught by the prohibition on threatening retailers
- Suggested introduction of post-grant re-examination

The consultation paper is available on the Patent Office website www.patent.gov.uk and the consultation period closed on 21 February 2003.

liability for patent infringement where part of apparatus is outside the UK

The claimants owned a patent for a gaming system consisting of a host computer, terminal computer(s), the communication means between them and a program for operating the terminal computer so that it was connected to the host.

The defendant, William Hill, operated a gaming system to punters in the UK who were supplied with a program which turned the punter's computer into a terminal computer for William Hill's betting system.

The claimants sued for infringement of their patent on the basis of section 60(2) of the Patents Act 1977, which provides that a person infringes a patent if "he supplies or offers to supply in the UK a person ... with any of the means ... for putting the invention into effect in the UK". William Hill argued that there was no infringement because the host computer was outside the UK and that section 60 of the Act was confined to acts committed within the UK.

A preliminary issue was determined with the judge holding that the location of the host computer outside the UK was not a defence because section 60(2) looked to effect within the UK, rather than mere use within the UK. William Hill appealed and the Court of Appeal upheld the decision but found that the judge had reached the correct conclusion, albeit by an incorrect route.

Section 60(2) did not look to something which merely had an effect within the UK. The words "to put the invention into effect" required a means intended to put the claimed apparatus into effect, and for the claimed apparatus to become effective. It was not a misuse of language to say that the punter used the host computer in the UK since it was the input to and output of the host computer which mattered to him. In a sense, he therefore used the host computer in the UK, despite the fact that it was situated and operated abroad. Someone using the defendant's system would be using it as if it were in the UK. Therefore the supply of a program on a CD in the UK to a UK punter would be intended to put the invention into effect in the UK.

Reference: *Menashe Business Mercantile Limited and Another v William Hill Organisation Limited* [2002] EWCA Civ 1702)

ability to exclude liability for defective software

The claimant software supplier had a single product known as InterSet, which was a package of ready-made modules for stockbrokers and others dealing in stocks and shares.

In October 1999 the defendant stockbrokers signed a licence and a maintenance agreement for the use of InterSet. The licence agreement provided for the defendant to give written notice of alleged failures of InterSet to meet specified acceptance criteria, and that, if the claimant did not remedy the failures, the defendant could reject the software and recover all sums paid.

The licence agreement excluded any warranties on the part of the supplier, including implied warranties of merchantability or fitness for purpose, to the extent permissible by law. It also excluded any liability for damages and, in any event, limited its liability to the amount of the licence fee paid.

A number of problems initially arose with the product but most were solved and the defendant did not seek to reject the software. The defendant subsequently outsourced its back office function and ceased payments to the supplier which sued for the balance due in respect of the licence fee, and for post-installation maintenance and other services. The stockbrokers counterclaimed for damages, including all sums paid to the claimant, on the basis that the system never worked properly.

The judge concluded that, on the evidence, the software had never worked properly. If a software system was sold as tried and tested, it should not have any bugs in it. If there were any bugs, they should be regarded as defects.

However, the stockbrokers never gave notice of rejection and, arguably, continued to benefit from the use of InterSet. They could not recover the fees they had paid because they had not gone through the contractual arrangements specifically put in place to deal with this situation. The exclusion clauses in the supplier's favour were effective and satisfied the test of reasonableness under the Unfair Contract Terms Act 1977, since the parties were of equal bargaining power in terms of their relative size and resources. Similar software supply companies had similar exclusion clauses and the defendant did not try to negotiate for more favourable terms. However, if the supplier had not offered the contractual money back machinery, the exclusions would have been unreasonable, although the limitation of liability to the amount of money paid under the licence agreement would have been reasonable.

The supplier was therefore entitled to the balance of the licence fee but its claim for additional charges failed since it had the responsibility for putting the defects right at its own expense. It also had a maintenance contract for which it charged and so could not recover additional charges on top of these.

Reference: *SAM Business Systems Limited v Hedley & Co* [2002] EWHC 2733 (TCC)

news in brief

Deadline passes for implementation of EU Digital Copyright Directive

The EU Directive on the harmonisation of aspects of copyright and related rights in the information society was due to be implemented by Member States by 22 December 2002. However, only Greece and Denmark have managed to meet that deadline.

The UK Patent Office's consultation on draft amendments to UK law in order to implement the Copyright Directive closed on 31 October 2002. The Patent Office has stated that almost 300 responses were received and that these are currently being analysed. The UK Patent Office is still hoping that the necessary UK legislation will be in place by 31 March 2003 at the latest.

Agreement finally reached on community patent

The EU competitiveness Council reached agreement on the creation of a community patent at its meeting on 3 March 2003, bringing to an end nearly 30 years of discussions. The agreement has been welcomed as a valuable tool for businesses who will be able to obtain a single patent valid throughout the EU at a fraction of the current cost of obtaining separate national patents.

We will be looking at the proposals in detail in our next Update.

Reference: Commission memo/03/47

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