



## 211 Asserting & Protecting Your Technology Rights in Europe- How & Where to Gain a Competitive Advantage

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## Faculty Biographies

### William Cook

William Cook is a partner of Simmons & Simmons in London, specializing in intellectual property law, with particular focus on patent and software copyright issues. Simmons & Simmons is an international law firm operating out of 21 offices worldwide. He has experience in a wide variety of technical fields, with an emphasis on issues faced by the technology sector, and regularly advises clients in the software, electronics, and telecommunications industries. His recent work includes advising on patent licensing/disputes and corporate transactions concerning financial software, computer systems architecture, communication protocols, semiconductor chips, and satellite mobile telephone technology. Issues addressed include the ownership of software copyright, exhaustion of rights based on sales of individual electronic components, and the assertion of patents "essential" to technology standards.

He is the author of many articles and a frequent speaker at conferences on patent and other technology-related matters. Recent examples include "FRAND or Foe" in *Managing Intellectual Property* and "Taking Liberties" in *Copyright World*. He was awarded the Diploma in IP Law and Practice, and also gained higher rights of audience in England (as a solicitor-advocate.) He is an associate member of the Chartered Institute of Patent Agents.

Mr. Cook has an M.A. from the University of Cambridge, England.

### Gary Thomson

Gary Thomson is the senior legal adviser - intellectual property to the global group of technology and engineering companies headed by GKN plc in the United Kingdom. Mr. Thomson's role is to provide legal advice to the GKN group, which has almost 40,000 employees based in 30 countries worldwide, on all aspects of intellectual property law (both contentious and non-contentious) but with particular emphasis on commercial agreements.

Before joining GKN, Mr. Thomson was a senior intellectual property litigator with a leading UK law firm, specializing in patent litigation in the fields of electronic and mechanical engineering. A second career lawyer, Mr. Thomson is also a chartered physicist and was previously a computational electromagnetics engineer with the Military Aircraft Division of British Aerospace (Defence) Ltd.

Mr. Thomson also serves as a member of a local government panel that scrutinizes the work of the police and other agencies responsible for crime reduction in the Rugby and Kenilworth district of Warwickshire, England.

Mr. Thomson gained a B.Sc. (Honors, 1st Class) from the Robert Gordon Institute of Technology in Aberdeen, Scotland and gained his legal qualifications at the University of Central Lancashire and the University of Bristol, both in England.

### Marcus Whalen

Marcus Whalen is the former European general counsel for Yahoo Search Marketing and is based in London, UK. His responsibilities include providing legal advice and support and managing a team of 4 lawyers that supports the Yahoo Europe Search and Search Marketing business across 12 European countries. His responsibilities include commercial law, licensing, distribution and intellectual property law.

Prior to joining Yahoo, Mr. Whalen was head of legal at Saville & Holdsworth ("SHL"), one of the world leaders in people assessment based on the science of psychometrics. Before working at SHL, Marcus worked for BTLookSmart, a provider of Internet search services where he was European general counsel and European commercial director. Prior to working for BTLookSmart he also worked for Coca-Cola Enterprises.

Mr. Whalen received a L.L.B. from Brunel University in London, United Kingdom and is a graduate from the Guildford College of Law, Guildford, United Kingdom.

### Tom Wheadon

Tom Wheadon is a partner of Simmons & Simmons in London, specializing in the law, regulation, and policy of telecommunications, satellite, media, the Internet and e-commerce. Mr. Wheadon advises a wide range of clients within the TMT sector. This expertise is built on a foundation of corporate and commercial work. His recent work has included acting for Engineering Inspection Technical Committee (EITC), the UAE's second fixed and mobile operator on its establishment, including its network procurement and the grant of its licenses and advising on the regulatory aspects of Telefonica's £17.8 billion acquisition of O2. Mr. Wheadon also advises clients on wet and dry, fixed, and mobile telecommunications infrastructure projects in various parts of the world.

Prior to joining Simmons & Simmons, Mr. Wheadon was an in-house lawyer with Videotron Holdings plc, covering legal, regulatory, and corporate affairs.

Mr. Wheadon is quoted in "The Legal 500" (2004 edition) as being "a genuine telecoms enthusiast and is immersed in the sector." Mr. Wheadon is also a "highly recommended individual" for telecommunications in *Which Lawyer?* 2006. Mr. Wheadon is the joint author of "Telecommunications -The EU Law" (Palladian Law Publishing - 1999) and "E-Commerce Law", published by Palladian Law Publishing.

Mr. Wheadon has an LL.B from the University of Southampton, England.

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## Asserting & Protecting Your Technology Rights in Europe –

### How are Where to Obtain a Competitive Advantage

William Cook, Partner, Simmons & Simmons

#### A: EUROPEAN PATENTS: THE PRESENT AND THE FUTURE

##### 1. Introduction

In October 2005 an assembly of Europe's senior patent lawyers and judges met in Venice to discuss a number of key issues regarding the harmonisation of patent law in the EU. The biggest, and most surprising, development of the weekend was the resolution that was passed by the judges who were present which called for the creation of a unified European Patent Court (the 'Venice Resolution'). This section explores the background to the Venice Resolution and the effect it may have on patent litigation reforms in Europe.

##### 2. The first step: the European Patent

The first step towards a truly unified European approach to patents was taken when the European Patent Convention ('EPC') was signed in October 1973. Although technically separate from the EU's legal framework, the EPC has since been ratified by all EU Member States (except Malta), as well as Bulgaria, Iceland, Liechtenstein, Monaco, Romania and Switzerland (the 'Contracting States').

The EPC established a centralised patent office in Munich, the European Patent Office ('EPO'), which allowed prospective patentees to take advantage of a single application procedure through which they could obtain a patent in any of the Contracting States. This system has become so popular that it is now the victim of its own success: the flood of applications received by the EPO has led to an average waiting time of about 4 years from application to grant. In 2005 alone, under 6,000 brave EPO staff took delivery of over 178,000 European Patent applications. Their efforts and those of their predecessors have led to the publication of over 1 million applications, of which it is estimated 700,000 are currently in force.

Despite the convenience of the centralised application procedure there a number of reasons why patentees are less than happy with the current system. These problems all stem from the fact that the rights that are eventually conferred on a successful applicant for a European Patent are nothing more than a 'bundle' of national patents in the Contracting States designated by the applicant. As a result, holders of European Patents only have rights on a national basis, meaning that proceedings for revocation or infringement are, by and large, handled by national courts.

The first problem that this creates is expense. Generally speaking, if you are applying for a patent in three or more of the Contracting States it is cheaper to apply for a European Patent through the EPC system than it is to apply individually through the relevant national patent offices. However, a patentee who subsequently wishes to enforce its patents in Europe has to do so on a country-by-country basis, regardless of the method it used to apply for its patents. This means that the patentee faces the cumulative cost of litigation in each Contracting State in which it wishes to enforce its patents.

Perhaps even more significant are the legal problems that can result from the courts of each Contracting State having jurisdiction over patent enforcement within their own country. This can lead to different courts reaching different conclusions in respect of the same patent. This happened most famously in *Improver Corp v. Remington Consumer Products Ltd*, when Hoffman J. (as he was then) held that the UK designation of the European Patent in suit had not been infringed but the German court held that the German designation of the same European Patent had been infringed. It has also led to disputes over which is the correct jurisdiction for patent actions to be heard in. In particular, it has been known to encourage infringers who suspect they may be sued in one Contracting State to issue proceedings for a declaration of non-infringement in another Contracting State (such as Italy or Belgium) where patent actions take considerably longer to get to trial than other Contracting States. They do so in the hope that any subsequent actions between the parties in other Contracting States will be stayed pursuant to Article 27 of the Jurisdiction Regulation. This type of delaying action is sometimes referred to as an Italian or Belgian 'torpedo', but its relevance has become limited recently by the practice of the Belgium Court and two recent cases in the European Court of Justice.

Whether their grievances with the current system are due to the costs involved in having to litigate European Patents in each Contracting State or the need to have greater legal consistency (or both) there have been calls from many quarters for many years for a more unified approach to patent litigation in Europe. In recent years these calls for reform have increasingly come from the lawyers involved in litigating European Patents. The Venice Resolution is the clearest expression yet of the dissatisfaction that patent lawyers throughout Europe feel with the current system.

##### 3. Attempts at reform I: the Community Patent

Given the longstanding dissatisfaction with the existing system it may be surprising to some that a framework for a unified 'Community Patent' system, producing real unitary patents with equal effect throughout the EU, has been in place for well over 30 years. The vision of a 'Community Patent' was officially introduced in 1975 by the Community Patent Convention ('CPC'). However, the idea ran into problems when first Denmark and Ireland, and then Spain, failed to ratify the CPC. Those problems have continued to dog the Community Patent ever since, despite repeated initiatives aiming to break the deadlock.

The latest of these initiatives began in 2000 at the summit of European leaders in Lisbon, which led to an ambitious programme of development being set for the EU. Encouragement of innovation and increased spending on research and development were particular keynotes. Last year the European Commission reasserted these aims by repeating its commitment to this 'Lisbon Agenda'.

The key proposals (in the form most recently suggested) include the establishment of a single Community Patent with effect throughout the EU, together with the creation of a new first-instance Community Patent Court. This court would have exclusive jurisdiction to deal with questions of both validity and infringement of the Community Patent. Unfortunately, even if one ignores the political barriers to implementation of the proposals that have been put forward for the Community Patent, there remain a number of powerful practical and legal considerations that have played a major part in obstructing the establishment of a Community Patent for so long.

First and foremost, it has proved impossible to resolve disagreements over the rules relating to translation. A number of different alternatives have been proposed over the years regarding the extent to which a Community Patent would have to be translated, and the number of languages into which it would have to be translated. The most recent proposal was for the claims alone (rather than the patent as a whole) to be translated into all the official languages of the EU. However, even supporters of the Community Patent are forced to admit that providing for claim translations in all of these languages within a short time scale "is a huge burden on industry...[and]...even if these translations are conducted with diligence, one cannot avoid translation errors". Debate has also centred on the speed with which these translations would need to be filed.

There has also been considerable dispute about the language in which claims should be interpreted, and whether the translated claims should have binding effect. Objections have also been raised regarding the proposed role of national courts as tribunals of first instance for Community Patent disputes prior to the establishment of the Community Patent Court.

The inevitable conclusion is that the Community Patent will continue to be bogged down for the foreseeable future: the proposals as they stand now are highly unlikely ever to be ratified, and renewed optimism following the Lisbon summit has dissipated since 2003 as no further progress has been made.

#### 4. Attempts at reform II: the European Patent Litigation Agreement

It became increasingly clear during the 1990s that the proposals for the CPC were running into difficulty, so an attempt was made to use the EPC as an alternative foundation for reform. The 1999 Treaty of Amsterdam opened the way for a minimum of eight EU member states to co-operate in matters technically under EU jurisdiction. Seizing the opportunity of the 1999 Inter-Governmental Conference on the EPO, a group of 10 EPC Contracting States formed a Working Party on Litigation. This led directly to the draft European Patent Litigation Agreement ('EPLA') of May 2003, which was finalised last year following final meetings of the 15 countries now involved.

The mood behind the EPLA is neatly summed up by Dr. Hans-Georg Landfermann, president of the German Federal Patent Court : "Since the efforts to create a Community Patent seem to have, at the moment, few chances of success, a unitary court system for the actual European Patent could be the first step [to establishing a truly European system of patent protection]". Essentially, the EPLA seeks to solve the EPC's problems by introducing a single court with jurisdiction over cases relating to European Patents. The aim of the EPLA is to avoid the problems identified above such as the costs of multiple lawsuits involving identical patents. The EPLA would also enable a patentee (or defendant) to obtain a judgment that was enforceable throughout the signatory nations. The language problem, which has proved to be such a stumbling block for the Community Patent, was surmounted by limiting the languages to be used to the 3 official languages of the EPO: German, English and French.

For several years the European Commission have blocked the progress of the EPLA despite the support it has received from industry and practitioners, claiming that the Working Party was illegal. In June 2005, at the final meeting of the EPLA Working Party, the representative of the European Commission who was present said that the Commission had decided that it should reconsider its approach to the EPLA given the support the EPLA had received. It was even suggested that the Council of Ministers might provide the Working Party with a mandate to represent the views of all EU Member States, thereby giving the EPLA a real chance to move forward. But when the Subcommittee of the Working Party reconvened in September, it was told that there had been no time for the Commission to consider the matter further and, as a consequence, no mandate had been secured. The representative explained that he had no option but to repeat the Commission's earlier position regarding the illegality of the Working Party.

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#### EPLA at a Glance

- 1 Court of First Instance (2 legal judges, 1 technical), consisting of 1 centralised chamber (location tbc) plus regional chambers
- 1 Court of Appeal or Second Instance (5 judges including at least 1 technical), centralised chamber (location tbc)
- Infringement and validity dealt with together
- Decisions have cross-border effect
- Proceedings in one of the 3 official languages of EPO (German, English and French)

#### 5. The Venice Resolution

A most significant recent development in this area occurred in October last year when the Venice Resolution was passed. This "thoroughly unusual" step was taken by 24 of Europe's top patent judges (including the UK's two most senior patent judges), hailing from 10 different countries, in an attempt to encourage the reform that the current system so badly requires. Kevin Mooney, Chairman of the Venice meeting, explained that the resolution was "an expression of the frustration felt by the judges who have been sidelined in these developments and just want to move things on".

The Venice Resolution is important for a number of reasons:

- (1) It reasserts the legality of the EPLA.
- (2) It underlines the depth of support within the judiciary for the EPLA. At the meeting of the Subcommittee of the Working Party in September last year, the only person to express disappointment at the Commission representative's comments was the representative of UNICE (Union of Industrial and Employers' Confederations of Europe). Now practitioners have demonstrated their support: it was the European Patent Lawyers Association ('EPLAW') that convened the Venice meeting. More of Europe's top judges have now backed industry opinion in force, with 5 additional judges adding their names to the Venice Resolution since October last year.
- (3) It confirms that there is an alternative to seeking a mandate from the Council of Ministers. This is the 'enhanced co-operation' route requiring 8 or more EU Member States that was originally used to establish the EPC referred to in the second paragraph of the Venice Resolution.
- (4) It suggests that the EPLA could complement rather than compromise initiatives to bring a Community Patent system into force. The text of the Venice Resolution implies that the signatories support the harmonising goals of the CPC, and indicates that they are willing to see the EPLA superseded by a Community Patent system should that prove politically viable.

This fourth point is controversial because some commentators see an EPLA type European Patent Court as unnecessary if the Community Patent system ends up being implemented. However most people with an interest in this area would agree that it is possible that the Community Patent system will never become a reality, and, even if it does, the first Community Patents are unlikely to be the subject of litigation for another 15 years or more. If our fears are realised and the Community Patent never materialises, European industry cannot do without the

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EPLA. While if the Community Patent does end up coming to life, the EPLA provides a precious chance to give a European-wide multi-language patent litigation system a thorough road-test.

Overall, the Venice Resolution is a truly unorthodox attempt to revitalise the reform of the European Patent litigation system and, as Kevin Mooney puts it, "a prod to industry and politicians to get on with it".

**Resolution passed by the named judges specialising in Patent Law at the Judges' Forum held in San Servolo, Venice – October 14-16 2005**

*Having regard to the large number of patents granted by the European Patent Office and in force in European countries (currently estimated at in excess of 700,000); and*

*Having regard to the necessity to enforce these patents nationally which is unduly expensive for patentees and may result in inconsistent decisions in different countries thereby creating barriers to trade; and*

*Having regard to the goals of the Lisbon Agenda of the European Community and the failure to date of the Member States of the EU to implement a Community Patent System; and*

*Having regard to the fact that even if an appropriate Community Patent system were to be implemented now, Community Patents will not be enforceable for many years and European Patents will continue to be granted.*

WE

- (i) *resolve that a practical way for European Patents to be enforced throughout the EU and member countries of the European Patent Convention within a reasonable time and at reasonable cost would be to convene a Diplomatic Conference with a view to implementing proposals broadly along the lines of those of the Working Party for a European Patent Litigation Agreement as soon as practicable; and*
- (ii) *urge that Member States of the EU and Turkey and Switzerland co-operate in such endeavour whether by way of Enhanced Co-operation pursuant to Art II of EC Treaty or otherwise.*

**6. What does the future hold?**

In January this year the European Commission launched a formal consultation paper on future patent policy in Europe. It is unclear whether or not this consultation was launched as a direct result of the Venice Resolution, but either way it certainly shows that the Commission has not completely lost interest in this issue. The consultation paper called for views to be submitted on the changes that need to be made to improve innovation and competitiveness, growth and employment in the knowledge based economy. In particular, the paper asked for views on the common political approach to the Community Patent agreed by the Council of Ministers on 3 March 2003 (which reflects the last formally-agreed position on the Community Patent). The paper also asked stakeholders to give their views on (i) the advantages and disadvantages of the proposals set out in the draft EPLA, and (ii) the ideal patent litigation system for Europe, given the possible co-existence of three patent systems in Europe (i.e. the national, Community Patent and European Patent systems). It is understood that over 2,500 responses were received in this consultation.

It appears that the European Commission will support the EPLA in preference to resurrecting proposals for an EU Community patent. Speaking at a public hearing on future patent policy held

in Brussels in July attended by over 350 interested parties, Internal Market Commissioner Charlie McCreevy said that the EPLA "is seen as a promising route towards more unitary jurisdiction" and that "I will ask my services to explore the possibilities of moving this project forward". Indeed, speaking at the hearing, EPO President Alain Pompidou said the draft EPLA "must be submitted to an intergovernmental conference as soon as possible".

The Commission is expected to announce its proposals during 2006. Whatever the outcome of the consultation process, it certainly appears that the Venice Resolution has increased optimism that a solution can be found to the current problems bedeviling patent litigation in Europe. The judges, profession, European Commission and (most importantly) industry seem to back the EPLA. There is considerable optimism that the political issues (principally ones of language) can be overcome.

**B. EUROPEAN PATENTS WITH INTRINSICALLY CROSS-BORDER EFFECT**

**1. Introduction**

The recent decision of the English Court of Appeal in *Menashe Business Mercantile Ltd v William Hill Organisation Ltd* (15 March 2002) concerned infringement of a business method patent in the UK where all the components of the patented invention itself were not physically present in the UK.

**2. The facts in Menashe**

The action concerned Menashe's patent for a gaming system which comprised of a host computer interconnected with at least one remote terminal computer, and communication software that operates the entire system, enabling the end-users on the terminal computers to engage in interactive gaming with the host computer. William Hill began operating a gaming system by supplying a program to its UK customers, usually contained in a CD, which enabled their computers to act as terminals via the internet for another host computer. The William Hill host computer had the properties and carried out the functions referred to in the claims of the Menashe patent. However, it was located outside the United Kingdom, in Antigua.

Although William Hill alleged that the Menashe patent was invalid, this issue was put on hold and it was agreed that there should be a trial of the preliminary issue of whether the fact that the host computer was located outside the United Kingdom provided a defence to infringement under s.60(2) of the Patents Act 1977 (contributory infringement). Menashe argued that by providing the software to their customers, William Hill had, contrary to section 60(2), infringed by "supplying and or offering to supply in the United Kingdom ... means relating to an essential element of the invention for putting the invention into effect when the defendant (William Hill) knew at all material times and/or it was obvious to a reasonable person in the circumstances, that the said means were suitable for putting and were intended to put the invention into effect in the United Kingdom". Against this, William Hill argued that because the essential host computer element of their system was not situated physically in the United Kingdom, the CDs were not supplied so as to put the invention into effect in the United Kingdom.

To avoid the position where there would have been a gap in a patentee's rights if William Hill were correct, Jacob J. decided at first instance that there was infringement. Had he found no infringement in the UK, the concern was that (by the same logic) there would be no country whose Courts would find infringement: in no one jurisdiction would the invention have been put into effect. According to Jacob J., the words "into effect in the UK" did not limit the means to the sense that they should put the invention into a state of effectiveness or implementation in the United Kingdom, but instead to the sense that the use of the William Hill host computer was such

as to have some "effect" within, or on, the United Kingdom. The judge held this was sufficient for infringement even if there was no use of the invention in the United Kingdom.

### 3. The decision in Menashe

The Court of Appeal upheld Jacob J.'s original decision, but adapted Jacob J.'s reasoning slightly. It held that merely requiring the means supplied to have an "effect" in the United Kingdom was not the correct interpretation of the Act, because such an effect would be broad enough to include economic, physical or even emotional factors. Instead, the correct interpretation was that the invention had to be put into effect in the United Kingdom, in the sense of being operational, or used, within the United Kingdom.

However, the Court held that William Hill did not have a defence to infringement. Recognising the importance of the case in "the age that we live in", the Court of Appeal reasoned that the physical location of the host computer was immaterial. The Court stated that it "could be in the United Kingdom, on a satellite, or even on the border between two countries". It considered that there was a real difference between the claimed gaming system reaching across borders and an ordinary machine located in one country: it would be wrong to apply the old ideas of location to global inventions of this type. It was the input and output of information from the host computer that was relevant. Crucially, by using their terminals in the United Kingdom, the William Hill punters were in a real sense also "using" the host computer in the United Kingdom. It was the CDs that enabled a UK customer to "use" both the terminal in the UK and the host computer abroad (which comprised the patented system) and consequently, by providing the CDs, William Hill were supplying the means for putting the invention into effect in the United Kingdom. William Hill infringed.

This decision will be welcomed by patent holders in the communications and computer field, where systems often work across borders. It appears that such a system cannot escape infringement in the United Kingdom simply because an essential element of that system was physically located abroad, as long as the real practical effect of that element was manifest in the United Kingdom. For English law to provide otherwise would have resulted in an "enormous gap" in UK patent protection.

This is also an interesting decision beyond the realms of "contributory infringement". The Court of Appeal acknowledged that the consequence of its reasoning was that users of the system might themselves directly infringe the patent. This could open the way for direct actions against individual users in such cases.

## C. EUROPEAN PATENTS: SOME TACTICAL CONSIDERATIONS

### 1. Differing approaches of national courts

In most European countries the court hearing a patent infringement claim may also take jurisdiction over issues of validity, whether raised as a defence or as a counterclaim, enabling the Court to consider the scope of the claims once, for assessment of both infringement and validity. In Germany and Austria, however, validity lies within the exclusive jurisdiction of a specialist court (part of the Patent Office), which is wholly separate from the infringement courts. This means that invalidity cannot be raised as a defence to an infringement claim. However, an infringement claim may be stayed or suspended pending the decision on validity by the specialist court. In Austria, the infringement case is generally stayed unless there is a strong clear case that the patent is valid.

In Germany, however, the practice is generally to stay the infringement claim only if there is a strong clear case of invalidity. Since the procedures of the infringement court (the Landgerichte)

are more rapid than those of the patent court (the Bundespatentgericht), an injunction can be granted in Germany under a patent which is subsequently revoked.

Another consequence of this split procedure is that it is at least theoretically possible in Germany for the validity and infringement courts to reach differing views as to the scope of the patent claims. The problem is highlighted where the alleged infringement is closely similar to the prior art: the Bundespatentgericht may adopt a very narrow construction of the claims, thereby avoiding the prior art and holding the patent valid, whilst the Landgericht may construe the claims much more broadly, and so find the patent infringed.

Another example of differing procedures is that nullity proceedings may not be brought before the Bundespatentgericht in respect of an European Patent (Germany) while the period for filing an Opposition at the EPO is still running, or if an Opposition (which may last, including appeals, in excess of 4 years) is pending. By contrast, in the UK and elsewhere the question of whether proceedings should be stayed during EPO Oppositions is a matter of discretion for the Court, and in the UK stays are rare: to date, only three contested applications have resulted in a stay, all in the past five years.

But differences in approach are not limited to procedural or practical aspects. Although Article 69 of the EPC and the protocol on the interpretation of Article 69 harmonise the approach to be taken to the construction of claims (combining "a fair protection for the patentee" with a "reasonable degree of certainty for third parties"), the national courts continue to follow their historical approaches to claim construction. There is a lingering perception that the German courts (and also the French courts) still tend to allow patent claims a broader scope than the English courts, although it appears that the differences in approach between the French, German and English courts are diminishing. The best-known example is the Improver litigation, where infringement was found in Germany, Austria and the Netherlands, whereas non-infringement was found in England and Italy.

Even in relation to validity, there are differences of national approach, the most extreme example being the (anecdotal) German case where the fact that the English court had revoked the UK designation of a European Patent was not sufficient to persuade the German Landgericht that there was a strong case that the German designation of the same European Patent was invalid: the Landgericht refused to stay the German infringement case, and granted an injunction.

### 2. Some further difficulties: enforcement forums and "forum shopping"

Throughout Europe, patent infringement cases are heard by a first instance court, with the possibility of two levels of appeal (the second level of appeal is generally available only in cases raising significant legal or constitutional issues). At the first level, there is generally an automatic right of appeal. In England, however, leave is required even for the first level of appeal (although we know of no patent cases where leave to appeal against a first instance decision as to infringement or validity has been refused).

The main remedies of an injunction, an appropriate payment to the patentee by the infringer (in the form of damages or an account of the infringer's profits), and confiscation or delivery to the patentee of all infringing goods in the infringer's possession, are available in all European countries, together with some reimbursement of the winner's legal costs (court fees plus, save in The Netherlands, partial reimbursement of attorneys' fees). In some countries (but not Germany, United Kingdom or Sweden) the infringer may be ordered to pay for publication of the decision in appropriate news media.

In most European jurisdictions it is possible to obtain an interim injunction to stop an infringer from continuing the allegedly infringing acts pending the final decision of the infringement court. The

ease with which the national courts can be persuaded to grant such an injunction, however, varies widely. In countries such as The Netherlands and Austria, the courts have shown themselves willing to grant interim injunctions (in Austria, it is not even necessary to demonstrate urgency), while in France interim injunctions are granted only in the clearest cases.

Jurisdictions like the United Kingdom and Germany occupy the "middle ground" where interim injunctions are possible but not common. It is generally considered that, in many cases, interim injunctions are not necessary, since a decision on the issue of infringement can be obtained in urgent cases in these countries within as little as 6 months and sometimes even more rapidly. In Germany, preliminary injunctions are granted only where infringement is clearly and easily shown.

Further complexity is provided by the Brussels Convention on Jurisdiction and Enforcement of Judgements, which applied throughout the European Union, and its successor, EC Regulation 44/2001 (the Jurisdiction Regulation) (references to the latter in this section include references to the former). The Jurisdiction Regulation provides that a defendant should be sued in the country where he is domiciled, no matter where in the European Union the wrongful act has taken place. Alternatively, the defendant may be sued in the country where the wrongful act (that is, the alleged act of infringement) took place. Once jurisdiction has been established under one of these rules, other defendants who are proper parties to the dispute may also be joined. Once one court has been properly "seised" of a dispute (that is, the necessary formalities for the commencement of proceedings have been complied with), all other courts in the European Union are obliged to decline jurisdiction, although they are permitted to grant interim relief where appropriate. Further discussion is given in the section of this paper relating to copyright.

It has been argued that the rules of the Jurisdiction Regulation allow a patentee to ask a single court in Europe to decide the issue of infringement of a "family" of patents for all relevant EU countries, particularly where the patent in question is a European patent with the same text in all countries. However, the Jurisdiction Regulation does not abolish national jurisdictional rules. Accordingly, in most European countries, the national courts are reluctant to grant injunctions to take effect outside that country. There is no such rule in the Netherlands, however, and the Dutch courts have shown themselves willing to grant pan-European injunctions in patent cases, that is, injunctions to restrain acts of infringement in all EU member states. Even in the Netherlands, however, this jurisdiction has more recently been limited to cases where the "spider in the web" (the company chiefly responsible for the infringements) is based in Holland, or where the "spider in the web" is based outside the EU, and has now been all but abolished by the recent judgments in *GAT v LUK* and *Roche v Primus*, which are discussed in more depth later in this paper.

The Jurisdiction Regulation provides that the validity of a patent (including the national designation of a European patent) is subject to the exclusive jurisdiction of the relevant national court. Thus, the validity of a patent can only be decided by the court of the country in which it is in force. This applies to European patents: the UK designation of a European patent ("European Patent (UK)") can be invalidated only by the UK courts, while a "European Patent (Germany)" can only be invalidated by the German courts and so on. The English court has always taken the view that the issues of validity and infringement are so closely connected that it is not possible for the issue of infringement to be determined by a different court from the court which decides validity. As a result, infringement should in effect be subject to the same exclusive jurisdiction of the national courts as validity, and once validity has been put in issue, the English court may not entertain proceedings relating to non-UK patents. The view of the Dutch and German Courts has been different – that infringement and validity may be separated and so one court can assume cross-border jurisdiction for infringements. However, the recent *GAT* and *Roche* cases at the European Court of Justice have indicated that the correct approach is nearer to that of the English Court. The ECJ decisions are interpreted in detail in a paper attached entitled "ECJ ruling against European cross-border relief will provide further impetus for a European Patents Court".

## D. EUROPEAN PATENTS: BORDER DETENTION

### 1. Introduction

One European dream is to have a single unified market, without barriers to trade or movement of workforce. However, technology companies can maximise the impact of their intellectual property across Europe, by cutting off imports at the port of entry. Those companies look to the EU Customs authorities to detain, at the port of entry, goods which are alleged to infringe European rights. For those familiar with US practice, one can think of this as an ITC "lite" procedure.

### 2. Stranded at the Drive-In: Blocking Imports in Europe

Under international trade agreements (TRIPs), goods which infringe IP rights can be stopped from being imported into each country by the authorities of that country. These TRIPs provisions were originally destined for only counterfeit and pirated goods, but in Europe the provisions have applied also to patented goods since 1999.

European Customs authorities are tasked with deciding whether to release goods for free circulation in the EC. Under the implementation of TRIPs in the European Union, a patentee can apply to individual national Customs authorities to issue an order under which they will monitor incoming goods and detain shipments suspected to infringe IP rights. The application must include proof of patent ownership or license in that country as well as "an accurate and detailed technical description of the goods". However, the European rules do not explicitly require evidence of a "prima facie infringement case" as TRIPs does. Customs do not examine the infringement allegation themselves when considering the application: they grant the so-called "Border Detention Order" ("BDO") more or less automatically. After its issue, customs mostly implement the BDO in electronic entry filing systems. As a result, the applicant must accept liability in case goods detained turn out (after litigation) not to infringe.

When incoming goods are suspected to infringe, Customs will detain the goods. Detention lasts 20 days maximum, during which the infringement case must be brought before the national court.

So far, so standard. But detention is only possible at the first port of entry into Europe – once inside, goods are free from these provisions. With 25 countries now comprising the EU, including several recent entrants in Central and Eastern Europe, that is a sizeable Customs union. The efficiency and ability of each national Customs authority to deal with these applications differs hugely from country to country. The jewel in the European crown is the Netherlands, where the process is staffed efficiently using computerised systems to back up the willingness of Dutch Customs officers. This is important because of the high number of shipments that enter the EU there. Rotterdam in particular is a significant entry point - the Dutch port is Europe's biggest (and possibly the world's biggest, unless you are talking to someone in Hong Kong). But Customs at other ports of entry may be more haphazard in enforcement.

Recent examples of BDOs show that Dutch Customs are willing to issue a BDO against a generic category of products covered by a technology standard, based on arguments that they are "essential" to the standard. Again, technical evidence is not required. All standard-compliant products are alleged to infringe the patents and should be detained by Customs, unless made by a licensee (a list of which is provided to Customs). The result: "blanket" BDOs which destroy or disrupt competitors' supply chains. If the goods do not in fact infringe, the liability of the patentee for "wrongful detention" only arises after litigation confirms there is no infringement. This can take years. Meanwhile, the products remain blocked from the market, which can be highly detrimental.

Although a powerful tool, these blanket BDOs can be questioned. The requirement to provide an accurate description of infringing goods arguably indicates that BDOs are meant to cover specific suspicious products rather than categories. Further, there may be European anti-trust concerns if such procedures are seen as abusive.

This practice of blanket BDOs in Europe is in stark contrast with the US implementation of TRIPs. In the US, the International Trade Commission procedure requires infringement to be established prior to issuing an order to keep the goods out. Of course, the European system is only as strong as its weakest link. If the patentee does not have patent coverage in the important entry points, or if Customs at the port of entry are inefficient, there is no guarantee that goods can be blocked. And well-advised importers will look to take full advantage of quirks in Customs procedures that can help evade detention.

## E. EUROPEAN PATENTS: CHALLENGING ESSENTIALITY

### 1. Introduction

"Essentiality" is a big issue for telecoms and electronics companies involved in cross-licensing worldwide patent rights. Allegations are made in negotiations, and to relevant technology standards-setting bodies, that certain patents are "essential" to products complying with the standards. These allegations have not to date been easily challenged by others. However, recently the English Court has proved willing to consider these types of challenges, in an apparent extension to its traditional jurisdiction.

The issues are summarised below, and explained in greater detail in the attached article entitled "FRAND or foe?".

### 2. Are some patents more "essential" than others?

At the heart of the issue of "essentiality" lies the role of standards in the technology sector. Faced with the increasing complexity of technology products, formal technology standards have been established in several industries to ensure interoperability, amongst other things. But there is conflict here: as English judge Mr Justice Pumfrey has said, "Nothing would be pleasanter for a patentee than to participate in the setting of a standard, compliance with which would inevitably involve infringement of his patent."

So, under the rules of standards-setting bodies, their members are typically required to disclose any of their patented technology which is (or, rather, is claimed to be) essential for compliance with a particular proposed standard, and at the same time agree to grant licences to all-comers on a fair, reasonable and non-discriminatory ("FRAND") basis. At least in theory, if patentees do not agree to these FRAND terms, the standards-setting body can guide the standard away from that technology before it is adopted.

Companies typically disclose their patents and agree to license on FRAND terms. But, given that every major cross-licensing negotiation is different, what is fair and reasonable to one counterparty may be extortionate to another. The end result is that there is little to stop a company asserting an "essential" patent against another in the courts, notwithstanding its continuing obligation to license, by disputing what is a reasonable licence fee.

However, the English Court has recently provided a weapon for licensees in global negotiations. In a hearing this year (Nokia v InterDigital), the English Court has confirmed itself willing to hear disputes over the "essentiality" of patents. In this case, Nokia sought a non-essentiality declaration in respect of around 30 of InterDigital's 3G frequency division duplex (FDD) patents. InterDigital had notified these to ETSI as essential under the Third Generation Partnership Project

(3GPP) 3G standard. The Court considered that it had discretion to grant a declaration of non-essentiality where it felt that the aims of justice would be achieved and where the underlying issue was sufficiently clearly defined to enable a proper determination.

For the Court to have this power, there must have already been some formulation of a claim of liability against that party (a formulated claim "as of right"). However, InterDigital's identification of the patents to ETSI as being essential or "potentially" essential was apparently sufficient to amount to a claim "as of right". Put simply, the court was unimpressed that a member of ETSI would make a declaration of essentiality and then be unprepared or unwilling to have the substance of that declaration tested.

It has been suggested that, as the English market may represent only 5% of relevant global telecoms or electronics markets, the judgment of the English Court is irrelevant to global disputes. However, this is wrong - the Court's view represents the impartial opinion of a highly respected, independent tribunal, and will inevitably have weight in global licensing negotiations.

With "essential" patents being challenged in the courts in this way, the balance of power in negotiations could shift. It remains to be seen, however, what will be the response of the technology powerhouses.

## F. SOFTWARE COPYRIGHT: UK BASICS

### 1. Introduction

Copyright subsists in computer programs. It is a right given to creators of such programs to control the copying or other exploitation of the programs in the UK. The right arises automatically on creation of the program, without the need for compliance with any formalities. The only pre-conditions are that:

1. the creator of the program must be British or a resident of one of the other (numerous) qualifying countries;
2. the program must be "original"; and
3. the program must be recorded (i.e. written down or stored in the computer memory).

In general, the first owner of copyright will be the author or creator of the program, subject to the exception that if an employee writes a program in the course of his/her employment, the first owner is his or her employer. This should be contrasted with the position where an individual or company (eg. a software house) is commissioned specifically to create a certain program - in this position, in the absence of any written agreement to be contrary, the person commissioned (i.e. the software house) will own the copyright rather than the commissioner. If ownership of copyright is important to commissioners of software, such copyright should be assigned in writing before or after creation. Whoever is the owner, copyright will usually exist until 70 years from the end of the year in which the original author dies.

Put simply, copyright is infringed by any person who copies (or reproduces) the work, either in whole or in a substantial part. It makes no difference whether the work is copied directly (for example, by copying the source code of a program line-by-line) or indirectly (for example, by copying a copy). Although this principle is easily stated in its general form, its application in relation to the copying of computer programs has proved more difficult.



## 2. Protection beyond mere code

It is clear that, where source or object code is directly reproduced, character-by-character, copyright in that program has been infringed. But if a competitor merely copies a very general concept or idea behind a program, things are not so straightforward. The Court must firstly ascertain whether that idea or concept formed a copyright work capable of protection and secondly decide whether it had been reproduced, in whole or substantial part. If the concept or idea is too general, the Court is not likely to find it to be a copyright work capable of protection. But it is more difficult to establish whether the intermediate stage between idea and language, being the creation of the structure, sequence and organisation of the program, is protected by copyright. Both US and UK Courts have formulated various tests to address this question, and the current state of UK law is that protection will depend on the level of detailed work carried out by the original designer in relation to the structure, sequence or organisation which is alleged to have been infringed.

It is often said that copyright is only intended to protect the expression of ideas, not the ideas themselves. Although this is a useful way of first understanding copyright at a conceptual level, it is far too simple a summary of the actual position for computer programs and other copyright works. It is correct to say that the general idea or basic concept of a program cannot be a copyright work, but an idea which is applied in expressing a particular concept may well be a copyright work. Although the issues of subsistence and possible infringement of copyright are separate and should not be mixed, often the English Court will consider whether a significant amount of the author's labour and skill has been spent on creating the alleged copyright work when assessing subsistence, and also whether a substantial amount of that labour and skill has been misappropriated when assessing infringement.

## G. SOFTWARE COPYRIGHT: ENFORCEMENT ISSUES

### 1. Background

Many of the jurisdictional issues facing patentees described above apply equally to copyright owners, except that, as copyright is an unregistered right, the provisions of the Jurisdiction Regulation requiring validity issues to be litigated in the country of registration are irrelevant.

### 2. Jurisdiction Regulation

The provisions of the Jurisdiction Regulation are summarised in an earlier section of this paper in relation to patents, but the primary rule, set out in Article 2, states that defendants must be sued in the country in which they are domiciled. There are a number of exceptions to this:

Article 5 (3) states that, in matters relating to tort, the claimant may sue in the courts of the place where the harmful event occurred.

Article 6 (1) states that if a party is one of a number of defendants, proceedings can be brought in the courts where any of the defendants are domiciled.

Article 22(4) states that proceedings concerning the validity of patents, trade marks and other registered rights must be heard in the courts of the country in which the right was registered.

Article 26 provides that, where the same action has been brought in more than one country, all courts must decline jurisdiction in favour of the court first seized of the action.

Article 27 allows a court to decline jurisdiction if another court is already hearing a related action.

In relation to copyright, Article 22(4) is irrelevant, and so by extension are the ECJ's comments in the *GAT* case. Therefore there is significant scope for asserting copyright in any European country where software is being copied or distributed, both against the primary infringer there and any co-defendants (for example joint-tortfeasors). There is also nothing stopping a cross-border action for copyright infringement (as happened in the UK case of *Pearce v Ove Arup*), unless previous actions have been commenced in other countries (see Articles 26 and 27 above).

The implications of the ECJ ruling in *Roche v Primus* are interesting. If co-defendants are to be joined, they must be proper defendants with involvement with the specific infringements in the relevant countries. Mere membership of a company group will be insufficient: the test for each country is (1) is there a defendant which can be sued in this jurisdiction under Article 2 (domicile) or Article 5(3) (place of infringement); and if so then (2) properly-joined co-defendants may also be sued there. Assessment of any parallel proceedings under Articles 26 and 27 must also be made.

## I. SOFTWARE COPYRIGHT: ANTI-CIRCUMVENTION CASE STUDY

### 1. Introduction

Regardless of the ability to commence legal action in any European country, many rights holders are looking at the use of technology protection measures (TPMs) to protect their rights both in content and underlying software. A recent case in the UK has interpreted Europe-wide legislation in this area: although it relates principally to digital content, it does highlight the forms of protection available more widely. The following sections reviews the issues relevant to such TPMs.

### 2. Background

In the information society, digital content is king. Whether ring tones, video clips, music files or the copy for this paper (and others more worthy), the speed and simplicity of sending and accessing digitised information is one of the defining aspects of modern life.

The rapid development of digital technology has changed the business environment for industries reliant upon copyright protection, including new possibilities to exploit the value of copyright works. Digital technology has enabled new ways of distribution of copyright works and new ways of charging for them. Apple's on-line iTunes Music Store sold 800,000 songs in its first week, and even now continues to sell hundreds of thousands weekly. In fact, the potential on-line music market is so valuable that traditional music retailers are being joined by most unconventional entrants into the on-line market. Newspapers, drinks companies, software companies and (it seems) any other high profile business with a strong youth brand have joined the rush to offer music content from their websites.

But the development of technology has not only enhanced potential markets for copyright industries, but also caused serious new threats. The ability to make perfect copies of digital works and the ease of distribution at low cost have caused vast losses. Whilst Napster went "legal" and pay for content, there are plenty of other peer-to-peer networks who do not pay for delivering or sharing content.

These problems appear greater for the music industry than the film industry. The latter has collaborated with distributors and electronics manufacturers to develop Content Scramble System (CSS), which is software loaded onto DVDs which prevents unlawful copying and permits authorised playback. The DVD players themselves contain circuitry which recognises CSS and follows its instruction. The investment in such systems and collaboration required to establish them is huge – the standards set for DVD players on behalf of the consumer electronics industry

are extensive, and the fall in price of DVD players over the last few years is breathtaking: from well over £100 a few years ago to £25 now. DVD player sales increased sevenfold between 2000 and 2004.

But it is well established that DVD recorders (not just play-back) are available for about £150. It is clear that TPMs, such as CSS for DVD, are increasingly important to copyright industries. The demand for greater legal protection for TPMs has been high for many years, and recent legislation seeks to address this.

At the international level, World Intellectual Property Organization's ("WIPO") Copyright Treaty and the Performances and Phonograms Treaty ("WIPO Treaties") require contracting states to provide for an adequate legal protection of TPMs. In Europe, the WIPO Treaties have been implemented by EC Directive 2001/29/EC (the "Information Society Directive"), which covers TPMs and other significant areas, and required member states to implement the terms of the Directive by the end of 2002. Many have been completed late: in the UK, the provisions of the Information Society Directive have been implemented (only a little late) into the Copyright, Designs and Patents Act 1998 ("CDPA") by UK regulations which came into force on 1 October 2003.

### 3. The UK's anti-circumvention law before October 2003

It is worth recalling that, even before the implementation of the Information Society Directive, the UK (unlike the laws of most other countries) already prohibited (in old s296 of the CDPA) the dealing in devices specifically designed or adapted to circumvent copy protection, and was applicable to all categories of copyright works in digital form. The old law gave protection to the copyright owner, and any person issuing legitimate copies of the work to the public, against any person who, knowing or having reason to believe that it would be used to make infringing copies, either (a) made available any device specifically designed to circumvent the form of copy-protection employed, or (b) published information intended to assist persons to circumvent that form of copy-protection.

The effect of this law was considered in 2004 by the English Court in a case brought by game consoles manufacturers Sony in *Kabushiki Kaisha Sony Computer Entertainment v Ball*. Sony's games, recorded on CD or DVD discs, contain computer programs (protected by copyright as literary works) and other creative works (such as drawings protected as artistic works). The copyright subsisting in the games is either owned or controlled by Sony. The games are also protected by a copy protection system consisting of two different parts: one is embedded in the console and the other in the discs. When an original game disc is inserted into a console, the console recognises the embedded copy protection code from the disc and allows the game to be played. Although the games as such can be copied to other discs, the part of the copy protection code embedded in the disc is not capable of being copied, so copied discs will be useless. This prevents both the sale of pirate copies and the sale in one geographical region of a game designed to be played in another region.

The defendants were involved in dealing in devices which enable the circumvention of Sony's copy protection system. The devices, when attached to Sony's game console, tricks the console to believe that any inserted disc contains the required embedded copy control code, and thus allows the playing of pirate copies and games from different regions.

As the defendants' acts spanned the period when the old and new laws were in force, the Court had to decide whether those acts were in violation of both. In relation to the old law, the Court held that each time a game is inserted into the console, a copy of it is made in the console's Random Access Memory ("RAM") and the RAM chip therefore constitutes an article representing the infringing copy, which was made using the device.

Under English law, in general an infringing copy must at some stage be either made in or imported into the UK. If circumvention devices were exported to other countries and used outside the UK, their use would not result in the making of infringing copies in the UK. The Court in *Sony* accepted this and held that the old law does not prohibit export of circumvention devices to other countries. Whether all such devices are exported outside the UK is a matter of fact, of course.

### 4. The "new" anti-circumvention law

The law changed on 01 October 2003, and made it more complex. The amended CDPA sets out two distinct regimes of protection against circumvention of copy protection devices. The amended section 296 applies only to circumvention of technical devices applied to computer programs, whereas the new sections 296ZA-296ZF apply to circumvention of, and dealing in, devices designed to circumvent "effective technological measures" employed to protect all other copyright works. The reason for adopting two clearly different regimes is that the Information Society Directive was not intended to affect the existing community provisions relating to the legal protection of computer programs (the Computer Program Directive). Therefore the new (and more elaborate) ss296ZA-296ZF reflect the Information Society Directive, whilst the amended s296 reflects the Computer Program Directive.

### 5. Protection of computer programs

It is prohibited (under new s296 of the CDPA) for a person to (i) deal with products for which the sole intended purpose is to facilitate the unauthorised removal or circumvention of a technical device applied to a computer program; and (ii) publish information intended to enable or assist persons in removing or circumventing such technical device, where that person knows or has reason to believe that it will be used to make infringing copies.

The technical device here means any device that is intended to prevent or restrict copyright infringement – these can include simple encryption, password protection, copy protection devices, use control systems and access control systems.

The copyright owner may enforce these provisions, as can a wide group of others. These include those issuing to the public copies of the program containing the technical device; those communicating such program to the public; the copyright owner's exclusive licensee; and the owner or exclusive licensee of any intellectual property right in the technical device applied to the computer program.

However, like the old law, the new law does not outlaw the actual acts of circumvention of copy protection devices, merely the dealing in circumvention devices. Circumvention itself is permissible, unless it is itself an infringement of copyright, and further liability is only incurred if the work is then copied without consent.

These provisions are strongly in favour of rights holders. They further enable the rights holders to seize relevant products from temporary sales outlets (eg market stalls) or apply to the Court for an order for delivery up of the relevant products.

In the *Sony* case, the Court had the opportunity to consider the new law. It held that all the points made about infringing copies and activities directed outside the UK under the old law applied similarly to the new law in so far as it relates to circumvention devices applied to computer programs (new s296) and actual circumvention in relation to other works (s296ZA – see below). A defendant may therefore be liable under these sections only in respect of circumvention devices supplied for use in the UK or actual use in the UK. However, dealing in the UK with circumvention devices for possible use outside the UK in relation to other works (not computer programs) may still be an infringement of other sections of the new law (s296ZD – see below).

Further, in relation to the prohibition on publishing, it is clear that if someone publishes on its website information which enables the circumvention of a copy protection system, that information would be published simultaneously to both British and foreign users of the device, and so be actionable in the UK. It follows from the standard English principles of availability of information in the UK of web-based material, but any such action would relate to the publication in the UK only.

## 6. Protection of other works – music, films, etc

### *Preventing circumvention*

The provisions relating to the protection of other digital content (sections 296ZA-ZF) are more complex than for computer programs, and reflect the close attention which content received in the Information Society Directive. They apply if effective technological measures have been applied to a copyright work (other than a computer program) or a work protected by right in performance, publication right or database right, and a person does something that circumvents such technological measures. It is prohibited (under s296ZA) for a person to circumvent the technological measure if he knows or has reason to believe that what he does will result in that circumvention.

Technological measure is defined as any technology, device or component which is designed, in the normal course of its operation, to protect a work protected by copyright (or any other above-mentioned right). And the technological measure is effective if the use of the work is controlled through an access control or protection process (eg encryption or scrambling), or a copy control mechanism which achieves the intended protection.

It is interesting to note that these provisions (relating to content, amongst other things, but not computer programs) only apply if the technological measure is effective – that is, achieves some form of protection of the copyright work. For these, incompetently designed or applied technological measures will not have the benefit of the law – they can be circumvented with impunity – which seems sensible because by definition they would not need to be circumvented in the first place. This may be contrasted with position relating to computer programs above: for those, technical devices which are an incompetently designed but were intended to prevent copying cannot be circumvented, even though they may be useless.

As with computer programs, a wide group of others may enforce these provisions as well as the copyright owner. This group largely corresponds to the group listed for computer programs above, being those issuing to the public copies of the work containing the technical measures; those communicating such work to the public; and the copyright owner's exclusive licensee.

But there is an express exception to these provisions which permits circumvention for research purposes carried out in the field of cryptography, deemed necessary to protect the cryptographic industry. This exception applies, however, only if circumvention or the later publication of the results of such research does not prejudicially affect the rights of the copyright owner. Clearly, this exception was introduced in order to protect those legitimately involved in studying cryptography. However, in the author's view, the limitation is likely to chill down research (both commercial and academic) in the field of cryptography as it seems likely that any publication or use of cryptographic analysis results may be prejudicial to the copyright owner.

In Sony, the Court held that, to the extent that the defendant installed devices to game consoles and such consoles were then used, there is no defence to the allegation that Sony's technological measures had been circumvented. For this provision to bite, it is irrelevant whether any copyright has actually been infringed. However, as before, any possible circumvention outside the UK would not constitute a breach of this provision.

### *Dealing in circumvention devices*

Further provisions of the new law (s296ZD) are concerned with dealing in devices enabling or facilitating the circumvention. It is prohibited to deal in any product or provide services which (1) are promoted for the purpose of the circumvention of effective technological measures, (2) have only a limited commercially significant purpose or use other than circumvention, or (3) are primarily designed to enable the circumvention.

Again, the copyright owner and a wide group of others may enforce these provisions, the wider group corresponding exactly with the group listed for computer programs above. Also, as for the computer program provisions above, these provisions further enable the rights holders to seize relevant products from temporary sales outlets or apply to the Court for an order for delivery up of the relevant products.

The wrong which this provision addresses is summarised above as "dealing" in these devices. More specifically, the section prohibits the manufacture, importation, distribution, selling or letting for hire (or offering or advertising to do so), and the possession for commercial purposes of devices. As with the other sections, the actual circumvention must occur in the UK. However, crucially, possession in the UK for commercial purposes of a stock of devices marketed for use in the UK and elsewhere has been held (in Sony) to constitute marketing in the UK: just because some devices happen to be exported subsequently does not change the fact that they were marketed and held in stock in the UK. Such devices therefore infringe.

### *Criminal offences*

Clearly, these provisions are designed to grant wider powers to the rights holders. This is amplified further in the establishment of criminal offences for those dealing in any product designed to enable the circumvention of effective technological measures, or offering such a circumvention service. These new offences carry similar potential prison terms as the existing offences of copyright infringement itself (up to 2 years), and reflect the Government's position that the offences of both copyright infringement and copy protection circumvention should be treated consistently.

## 7. Rights management information

Electronics rights management (ERM) information is also protected under the new law. If ERM information is altered or removed by anyone knowing or with reason to believe that this would enable or conceal copyright infringement, that person may be sued by the copyright owner, its exclusive licensee or anyone legitimately issuing copies or communicating the work to the public. Similar liability will attach to anyone knowingly dealing with a copyright work from which ERM information has been altered or removed who knows or has reason to believe that this would enable or conceal copyright infringement.

## 8. Copy protection and fair dealing

Copyright is not an exclusive right. Since it was first introduced into English law, legislators have tried to strike a careful balance between the rights of copyright owners to prevent copying of their works and the reality that members of the public should be able to use some works for some purposes. This is done by providing certain limitations to copyright owners' exclusive rights. The CDPA limits copyright owners' rights, for instance, by allowing fair dealing for the purposes of private study, research for a non-commercial purpose and for the purposes of criticism and review where (if possible) there is sufficient acknowledgement.

Of course, technical devices and technological measures such as encryption, password protection, copy protection devices, use and access control systems are capable of restricting not only illegal uses of copyright works, but also permitted uses (eg fair dealing). But without further legislation, the anti-circumvention measures described above would catch those trying to circumvent protection devices even for permitted uses. Therefore, the Information Society Directive requires member states to take appropriate measures to ensure that copyright owners enable the beneficiaries of certain copyright exceptions to benefit from those exceptions.

The UK legislation implements this requirement in a rather unusual way. It provides a remedy for a person who is prevented by a technological measure from carrying out a permitted act with respect to a copyright work (other than computer program). Such a person may send a notice of complaint to the Secretary of State, who may then give directions to the owner or exclusive licensee of the work to allow the permitted act to be carried out. But the Secretary of State is under no obligation to take any action whatsoever, and there is no right of appeal of his decision (or indecision). And an application for judicial review of the decision may be problematic, as one would need to show that the decision would not have been reached by any reasonable Secretary of State.

As the right to complain to the Secretary of State is the sole remedy available to permitted users in these circumstances, it is questionable whether this qualifies as an "appropriate measure" required by the Information Society Directive. It is anticipated that the remedy will be time-consuming and frustrating, if used at all.

## 9. Conclusion

The current law grants wider protection to rights holders than was the case before October 2003. Due to the legislative history, rather elaborate differences in wording and definitions exist between the regimes for (1) computer program protection, (2) other copyright work protection, and (3) electronic rights management. However, there is no doubt that the interests of copyright owners are being protected by the law, and upheld by the Court.

For both computer programs or other works it is interesting to note that, where the dealing in products is actionable, no actual copyright infringement, or even actual circumvention of technical measures is required for the provisions to apply. The provisions are violated simply by dealing (i.e. importing, selling, advertising etc.) in an anti-circumvention device, whether or not there is any actual infringement. Therefore, the protection given to copyright owners and others by these provisions goes beyond traditional copyright protection as such, and represents an additional layer of protection. It represents a powerful weapon for rights holders.

However, the distinction between the provisions for computer programs and other works is artificial, arising as it does from the implementation of two different European directives. There seems to be no policy reason why actual circumvention of computer program protection devices is lawful but actual circumvention of protection devices for other works is unlawful. Similarly, it is a legislative oddity why the marketing in the UK of devices which may ultimately circumvent "other work" copy protection outside the UK is unlawful, whereas the marketing in the UK of devices for circumventing computer program copy protection outside the UK is permissible.

On the latter point, however, the English Court has shown itself willing to come to the aid of rights holders. The Court has been quick to stress that a person can be sued in the UK not only for breaching the provisions of the CDPA, but also for breaching corresponding laws of other member states of the EU in accordance with the provisions of the Brussels Convention. As increasing numbers of European countries implement the Information Society Directive, rights holders would be well advised to consider bringing an action in the UK in respect of anti-circumvention activity across Europe.

## I. CONFIDENTIALITY (INCLUDING KNOW-HOW)

### 1. Introduction

In the UK, confidential information is not treated as property as such (intellectual or otherwise). Rather, it is protected under the combination of a variety of different limbs of the law: equitable principles preventing breach of confidence, copyright in written reports, data, specifications and software, and physical ownership of such reports.

A question that often arises is whether companies can keep their software confidential after supply. In general, software developers and manufacturers making articles embodying non-application software need to take careful precautions if they wish to maintain the confidentiality of such software for the future. By applying fundamental principles of contractual and confidentiality law, companies with an interest in this area are able to refine their operating practices to maximise the chances of keeping their software confidential. The UK case of *Mars v Teknowledge* in 1999 highlights some of these issues.

### 2. The Facts in *Mars*

Mars is a leading company in the design and manufacture of vending machines, which include discriminators to determine the authenticity and denomination of coins fed into the machine. These discriminators work by using sensors which take a series of electrical measurements of a coin fed into the machine, measuring various dimensions and properties of the coin. Using software written by Mars and contained within each vending machine, these measurements are then compared with pre-determined sets of data for valid coins, which are held on memory chips within the machine.

In particular, the discrimination process includes the use of algorithms which combine the output of the sensors in the discriminators to ensure that each valid coin gives a set of outputs which can be distinguished from non-valid coins and discs (termed 'slugs' in the trade). Mars expended a great deal of time and effort in developing these particular algorithms for use in their machines, as well as the software which puts them into practice. In particular, they factored in the possibility that there may be variants arising from the same mint of the same (valid) coin, and the possibility that there is either a similar size coin in circulation in a neighbouring country or a common form of slug which is close to a particular (valid) coin.

It was commercially necessary for Mars to be able to re-programme their vending machines so that, from time to time, they could take new kinds of coin or new variants of existing coins. For commercial reasons Mars wanted to reserve to themselves and their agents the ability to carry out this 're-programming' (or, more colloquially, 're-calibration'). Therefore, Mars developed a data layout, serial communications protocol and encryption system for its machines, none of which it published directly. The purpose of the encryption system was to make it very difficult for any third party to work out how to communicate with the memory chip within the vending machine so as to 'reverse engineer' the product to ascertain the algorithms and other software held within the machine. When necessary, Mars and its authorised agents could then re-program discriminators within the machines, for a fee. However, Mars recognised that it could not (without unreasonable cost) make it impossible for third parties to reverse-engineer the machines in order to re-calibrate them.

Teknowledge successfully reverse-engineered Mars' vending machines, circumventing the encryption, in order to re-calibrate them. Mars objected to these activities, claiming (amongst other things) that Teknowledge infringed its copyright and misused its confidential information in the software embedded within the vending machines.

### 3. Can software owners keep their software confidential by protecting it by encryption?

An interesting question presents itself: is it possible to impose confidentiality upon someone who receives information by purchasing an article in the open market? Mars argued in *Mars UK Limited v Teknowledge* that purchasers of their vending machines received Mars' confidential information in the form of the software and algorithms contained within those machines. Anyone attempting to reverse engineer the vending machine (and the software) would discover that Mars had put in encryption to protect the software, and would then be put on notice that the maker regards what is encrypted is confidential. Mars argued that the encrypted information should therefore be regarded in law as a trade secret and treated as such, and that it is a breach of confidence for anyone to decipher the code without consent.

At first glance, this argument is attractive: if a manufacturer uses confidential information in the form of software within its products, and the purchaser of the machine does not need to know about or understand the software in order to use that product, it seems unjust that the purchaser can use the confidential information freely without further consent from the manufacturer. However, to analyse the legal position further, it is useful to consider the three requirements of breach of confidence cases.

- (1) Firstly, the information itself must have the necessary quality of confidence about it. This means that the information must not be publicly known or available to the public, and should have been kept confidential by the owner of the information, or the previous recipients of the information under conditions of confidentiality.
- (2) The information must be disclosed in circumstances which import an obligation of confidence. This means that, before and at the time of disclosure, the disclosing party must make it clear that the information is confidential and that the recipient should not disclose it to anyone or use it other than as permitted by the disclosing party.
- (3) There must be an unauthorised use of that information to the detriment of the disclosing party. This use can include either an unpermitted further disclosure to a third party, or an unpermitted use of the information.

(This three-part test was initially formulated in 1969 in *Coco v Clark* [1969] RPC 41, and has more recently received approval in the House of Lords in the *Spycatcher* case, *AG v Guardian* [1990] 1AC 109).

As to the first requirement, the Judge in *Mars* considered that the software in Mars' vending machines did not have the necessary quality of confidence, as the products were available to the public on the open market. Crucially, as each purchaser of such machines has a full right of ownership, the Judge found that each such purchaser has an entitlement to dismantle the machine to find out how it works and tell anyone he pleases. The Judge found it impossible to hold that that information was then confidential.

On the particular facts in *Mars*, it followed that the confidential information case could not get off the ground as this first requirement was not satisfied. However, it could easily be satisfied in certain circumstances: the manufacturer could make it clear before and at the time of sale of each machine that it contains confidential information of that manufacturer, that the information is encrypted and that it is a condition of sale that should any purchaser break such encryption they are prohibited from further disclosing the information or using it for any purpose whatsoever. Such terms could also be incorporated in a contract, provided that means could be found for giving the benefit of the contract where the manufacturer is not a party to the supply transaction. In particular under the Contracts (Rights of Third Parties) Act 1999, a non-party has the right to

enforce a term in a contract as long as the contract provides that he may or confers the benefit upon him.

In relation to the second requirement, Mars argued that the circumstances importing an obligation of confidence are to be inferred from the fact that any reverse engineer of the vending machines finds encryption. They said that the fact of encryption amounts to a notice saying 'confidential - you may not de-encrypt'. However, the Judge was not impressed by this argument: he said that all the reverse engineer would take from the fact of encryption was that the source of information did not want him to have access, not that he receives the information in confidence. If the reverse engineer cracks the code, there is no obligation in confidence. In doing so, the Judge rejected Mars' arguments based on the *Spycatcher* case that it is settled law that a duty of confidence may arise where an obviously confidential document is dropped in a public place and is picked up by a passer-by. The Judge distinguished *Spycatcher* as relating to an obviously confidential document fortuitously coming into the hands of a non-intended recipient, whereas on the *Mars* facts, the recipient (being the customer) is in fact an intended recipient.

In doing so, the Judge relied on the fact that there is no marking on the machine itself that the contents are 'confidential', and no indication of encryption. By the time a purchaser finds out about the encryption, the machine has been purchased and this is, in the Judge's view, far too late to impose a duty of confidence. So how should a manufacturer in Mars' position impose the obligation of confidence? If the machine itself is clearly marked confidential (in relation to software included) and indicates that the confidential information is encrypted, and if the salesmen of the machine and marketing/promotional literature also make it clear that the machine contains confidential information which can be neither used nor disclosed for any purpose, this second requirement may be satisfied: the necessary conditions of confidentiality may be present.

However, the Judge in *Mars* went on to say that he did not think that even an express statement would override the buyer's entitlement to find out how his machine worked, and this must be correct. However, the Judge went on to say that the buyer should also be able to tell anyone he chooses, and he relied on *Alfa Laval v Wincanton* [1990] FSR 583 to support this statement. This may have been true on the facts of the *Mars* case, but in *Alfa Laval Morritt J.* held that the buyer has the right to tell anyone he chooses only in the absence of specific contractual provision (or any applicable intellectual property right). Therefore it is important that the warnings about confidentiality made before and at the time of sale must be sufficient to form a contractual obligation binding the buyer.

### 4. Conclusion

In *Mars v Teknowledge*, the Judge 'unhesitatingly' rejected Mars' claim based on breach of confidence. Unless relevant companies give appropriate warnings at the point of sale or in the relevant written contract (to impose contractual obligations of confidentiality, which will be difficult in many cases), the software itself may not be protected by the law of confidentiality. The practical effect of this is that, for wide-spread or "commodity" software, it will be difficult to retain confidentiality. This is particularly relevant as European legislation, now implemented within each European country, states that decompilation is permissible (and not an infringement of copyright) for the purposes of creating new software to interface with other software.

The conclusion is that owners of software will often have to rely principally on copyright, and not confidentiality, to protect their software from copying.

Paper for ACC's 2006 Annual Meeting: *The Road to Effective Leadership*  
October 23-25, Manchester Grand Hyatt, San Diego

The following article appeared in the June 2006 edition of *Managing Intellectual Property*.

### FRAND or foe: is some IP more "essential" than others?

William Cook  
Simmons & Simmons

*It is well-known that telecoms and electronics giants can throw their weight around in negotiations over patent cross-licences. And it is right that they should extract significant licence fees in respect of their relevant and valuable intellectual property. But is it credible to claim to have hundreds of patents which are "essential" to the industry standards? This article investigates use, and abuse, of standards-setting processes.*

ETSI has been in the spotlight recently. The Electronic Telecommunications Standards Institute has been under attack from the European Commission and network providers within its own membership. It is also at the centre of an ongoing dispute in the English courts, with global significance, between Nokia and wireless technology developer InterDigital.

At the heart of these problems lies the role of standards in the technology sector generally. Faced with the increasing complexity of technology products, formal technology standards have been established in several industries to ensure interoperability, innovation and reduce the barriers to market entry for new entrants. But the conflict between the interests of those involved in setting standards and those who hold patents in the associated technical area is obvious: as English judge Mr Justice Pumfrey has said:

*"Nothing would be pleasanter for a patentee than to participate in the setting of a standard compliance with which would inevitably involve infringement of his patent."*

To address this problem, under the rules of any standards-setting body, its members are typically required to disclose any of their patented technology which is (or, rather, is claimed to be) essential for compliance with a particular proposed standard, and at the same time agree to grant licences to allcomers at reasonable rates. Any companies that conceal their "essential" patented technology and then use it to prevent other companies entering the market or for demanding high licence fees can be accused of 'patent ambush', which may well breach European competition (anti-trust) laws.

Several points flow from this:

- In particular, companies who disclose a patent as "essential" are typically expected to agree to licence that technology to all others on a fair, reasonable and non-discriminatory (FRAND) basis.

- At least in theory, if companies do not agree to these FRAND terms, the standards-setting body can guide the standard to be finally adopted away from that technology.
- In reality, companies tend to neither (i) conceal their patents, nor (ii) disclose them but refuse to licence on FRAND terms. That is, companies typically both disclose their patents and agree to licence on FRAND terms. This is because of the difficulty in defining what is FRAND: given that every major cross-licensing negotiation is different, involving a different selection of patents on both sides, what is fair and reasonable to one counterparty may be extortionate to another. One man's FRAND could be another man's enemy. Everything depends on context.

The end result is that there is little to stop a first party asserting in the courts an "essential" patent against another, notwithstanding its continuing obligation to license on FRAND terms, by claiming that the other refused to take a licence on what the first considered unilaterally to be FRAND.

So standard-setting bodies like ETSI have been confronted by a major land grab for patents in areas identified as critical for growth such as mobile technology. The result is 'patent stacking': patent holders take out many patents for different aspects of a single product. The more patents a company declares as essential for compliance with a particular standard, the stronger its negotiating position. All other things being equal, 100 patents licensed on FRAND terms may arguably produce licence fees of 100 times the fees for one patent. The concern is that the result has been the wholesale overdeclaration of "essential" patents.

Increasingly, standard-setting bodies like ETSI are being called upon to police the conduct of their members in the face of patent ambush and patent stacking, refusals to license or to license on FRAND terms, and overdeclaring "essential" patents. These activities are blamed for distorting the market, reducing innovation and restricting competition.

The failure of ETSI to take a more active role in the regulation of its standards has led the European Commission to take the lead in clamping down on patent ambush and licence abuse. The European Competition Commissioner Neelie Kroes has stated that it is crucial

*"that standard-setting bodies establish rules which ensure fair, transparent procedures and the early disclosure of relevant intellectual property".*

In addition, in the recent dispute between Nokia and InterDigital, the English courts have claimed jurisdiction as self-appointed arbiters of patent essentiality under the ETSI standards. The international potential of the English Courts has never been greater.

#### Licensing problems

Generally, the rules of standards-setting bodies do not set out clear policies on the licensing of technologies essential to a standard. In fact, standards-setting bodies have rigidly enforced the separation of licensing issues from the standard-setting process. As ETSI states in its Guide on Intellectual Property Rights:

*"Specific licensing terms and negotiations are commercial issues between the companies and shall not be addressed within ETSI".*

This situation has resulted in a recent call by some of Europe's largest network providers for changes to the ETSI rules requiring patent holders to licence essential patents on a FRAND basis. The problem faced by ETSI was that under its rules a patent holder is not mandated to licence its technology at all. In fact, even if the essential patent belongs to an ETSI member, the

only sanction available to ETSI is to threaten the member with non-participation in the standard, or guide the standard away from that technology.

In their proposal to ETSI's November 2005 General Assembly, network providers including Orange, T-Mobile and Vodafone called for new ETSI rules to require the agreement of licensing terms *before* the setting of a new standard and the imposition of a limit capping excessive royalty payments. ETSI's failure to deal with licence fees was, the providers argued, limiting competition through the negative impact on pricing and by handicapping the industry's ability to drive down costs.

This complaint followed a separate protest to the European Commission in October 2005, by six equipment manufacturers, alleging anti-competitive behaviour by Qualcomm over the licensing of its "essential" 3G technology patents. Qualcomm was accused of violating EU competition law, renegeing on commitments made during negotiations and failing to meet its commitments to international standard bodies to license its technology on FRAND terms.

The providers – Broadcom, Ericsson, NEC, Nokia, Panasonic Mobile Communications and Texas Instruments – pointed to Qualcomm's refusal to licence essential patents to potential chipset competitors on FRAND terms, charging excessive and disproportionate royalties for its WCDMA (Wideband Code Division Multiple Access) patents and to offering lower licence royalty rates to handset customers who bought chipsets exclusively from Qualcomm. Qualcomm has rebutted the allegations, suggesting that the providers are simply using the European Commission investigation as a means of renegotiating better licensing terms and pointing out that the allegations come from 2G suppliers who have the most to lose from the enhanced and expanded 3G competition spawned by Qualcomm's licensing of its enabling 3G technology, chipsets and software.

In turn, the European Commission has threatened to investigate ETSI. As a result of this, ETSI has agreed to set up an IP group to make changes to its standard-setting rules. The industry awaits with interest but not bated breath: ETSI must serve the interests of its members, who are clearly divided in terms of interest. Network providers would like to see the lowest cost licensing regime possible, to minimise the prices of the equipment they buy. But the big industry suppliers have an obvious interest in retaining as much autonomy in their licensing program as possible: they want to (1) maximise licensing income and (2) drive competitors' prices high by charging them large licence fees. The European Commission has promised to continue to monitor the situation.

In reality, however, it is unlikely that any rule change will alter fundamentally the current position. Patent holders will stack their patents high, declare many as "essential" to a standard, then seek to negotiate the highest licence fees possible. This is simply good business. So what checks on patentees are being put in place?

#### **Nokia v. InterDigital**

The recent dispute in the English Courts between Nokia and InterDigital has opened a new front in the struggle between patentees and their prospective licensees under "essential" patents, and has provided a weapon for licensees in global negotiations.

Licensing its technology is a lucrative business for InterDigital. It is public knowledge that it signed a licensing deal with LG Electronics in January 2006 in which LG agreed to pay \$95 million in royalty payments each year from 2006 to 2008 for the use of InterDigital's 2G and 3G handset technologies. Further, Nokia has been ordered to pay up to \$252 million to InterDigital, as a final award in an ICC arbitration covering royalty rates applicable to Nokia's sales of relevant 2G and

2.5G infrastructure and handsets during 2002 – 2006. Following that, Nokia and InterDigital settled their global 2G and 2.5G disputes, by Nokia taking a perpetual licence for \$253 million.

Before the settlement, Nokia had commenced legal action in the English Courts in which Nokia challenged the "essentiality" to the 2G standards of three InterDigital patents. It appears that this may have been too late to affect the ICC arbitration, and so the global 2G and 2.5G settlement, but future 3G royalties are still in dispute. It therefore comes as no surprise that Nokia have, in a separate action, also challenged in the English courts the essentiality to the 3G standards of some thirty InterDigital patents.

- **2G action**

In the 2G action in December 2004 (*Nokia Corporation v. InterDigital Technology Corporation [2004] EWHC 2920*, appealed in April 2005 at *[2005] EWCA Civ 614*), Nokia sought the invalidity of three patents asserted by InterDigital as essential to the ETSI's 2G standard, and then tried to add to that action an (unprecedented) declaration of "non-essentiality" in respect those patents. Nokia chose seek the *non-essentiality* declaration, rather than follow the traditional route by seeking a declaration of *non-infringement* of the contested patents, apparently in an attempt to strike at the heart of InterDigital's patent policy of multiple declarations of essentiality.

In short, despite InterDigital's protests, the English court allowed the matter of non-essentiality declaratory relief to proceed to a full hearing before the court (it agreed that there was a reasonable argument that it should hear declarations of non-essentiality). In its decision, the court demonstrated a willingness in principle to resolve the commercial issue between Nokia and InterDigital on terms understood by the parties, by looking at whether the patents were essential for the standard rather than whether Nokia infringed InterDigital's patents.

The matter therefore proceeded to full trial on the issues of (at least) validity and non-essentiality, with the final confirmation that the court has power to hear declarations of non-essentiality being postponed to a later date. However, the case settled before any of these issues were decided.

- **3G action**

In March 2006, the parties were back in court (*Nokia Corporation v. InterDigital Technology Corporation [2006] EWHC 802 (Pat)*). This time the subject matter was around thirty of InterDigital's 3G frequency division duplex (FDD) patents that InterDigital had notified to ETSI as essential under the Third Generation Partnership Project (3GPP) 3G standard. 3GPP brings together a number of telecommunications standard-setting bodies, including ETSI.

This time Nokia did not seek a revocation of the contested 3G patents. It simply claimed that these thirty InterDigital patents were not essential for its equipment to comply with the 3G standard and sought declarations of non-essentiality. InterDigital sought to strike out Nokia's claim.

The Patents Court found little of material difference between the facts of the 3G case and the 2G action. The Patents Court affirmed that it had the discretion to grant a declaration of non-essentiality where it felt that the aims of justice would be achieved and where the underlying issue was sufficiently clearly defined to enable a proper determination.

The reasons behind these decisions are illuminating. The court follows three basic principles when considering whether to grant negative declaratory relief under its "inherent jurisdiction":

1. The question is decided as a matter of discretion, giving the first instance judge significant power in any particular case;
2. Negative declarations are only suitable where they will serve a useful purpose; and
3. They are also only possible where the underlying issues can be clearly defined.

Underlying all these is that, for the court to have the power to hear a declaration of non-liability brought by a party, there must have already been some formulation of a claim of liability against that party (a formulated claim "as of right"). In the 2G action, the court found it easy to hold that there had been such a claim, because InterDigital had formally stated, *within the court action*, that two of the patents were essential. But, knowing this, in the 3G action InterDigital refused to indicate *to the court* whether or not it considered any of the thirty patents to be essential, even though it had of course already notified them to ETSI as essential or potentially essential.

However, the court found that InterDigital's identification of the patents merely to ETSI as being essential or "potentially" essential was sufficient to amount to a claim "as of right". As Mr Justice Pumfrey said:

*"In my judgment, to approach an international standards body and suggest that the use of a particular invention is essential . . . necessarily involves a formulated claim against potential users of the standard."*

He further considered that the term "potential" applies only when either or both of (1) the form of claims and (2) the scope of the standard were uncertain. As soon as they are both fixed (eg patent granted and standard finalised), the logical consequence is that the court views an assertion of "potential essentiality" as amounting to an implicit assertion of "essentiality", unless and until it is withdrawn.

Put simply, the court was unimpressed that a member of ETSI would make a declaration of essentiality and then be unprepared or unwilling to have the substance of that declaration tested. InterDigital certainly could not paint itself as the unwilling claimant with an unformulated case, dragged into costly litigation against its will.

Applying each of the three principles numbered above in turn:

- **1. Discretion**

The judge in the 3G case was unimpressed with InterDigital's refusal to confirm *to the court* that the patents were essential to the standard, even though it had notified them as essential to ETSI. One cannot imagine that the judge was favourably disposed to InterDigital's position as a result.

More significantly on discretion, InterDigital's arguments that a declaration would "open the floodgates" to litigation, that it is inappropriate because the UK is only a small percentage of the market, or that it does nothing to assist the licence negotiations, were rejected at this stage.

- **2. Useful purpose?**

The best view of the judgments in the 2G and 3G cases is that, as a matter of policy, the court clearly considers that industry participants should have a forum to challenge assertions to standards bodies that patents are essential. That the English court is willing to blaze a trail by adopting the jurisdiction itself should be unsurprising: the Patents Court and Court of Appeal have several highly experienced and confident specialist patent judges who would be delighted (and easily able) to hear such challenges. It has been suggested that, as the English market may represent only 5% of relevant global telecoms or electronics markets, that the judgment of the English court is irrelevant to global disputes. However, this is unduly negative – the court's view represents the impartial view of an experienced tribunal unconnected with either party, which will inevitably have weight in global licensing negotiations. As such, it is extremely valuable: a finding that a particular patent is, or is not, essential will have significant persuasive value in negotiations.

Connected with this, the court rejected the argument that, even if the patents are declared non-essential, Nokia could still be found to infringe them and therefore that the declaration would be a waste of time. In the court's view, this was simply not realistic – to be notified as essential, a patent must necessarily describe and claim its invention in terms which relate to the definition of the standard itself. If they do not, the patent claims will relate to specific implementations which cannot part of the standard. As the court said:

*"nothing can be notified as technically essential if it relates to implementation-specific features".*

The unwritten message is clear here. If patentees are notifying (even arguable) implementation-specific patents as being essential to standards, these can be challenged in the English courts relatively quickly and removed from the negotiation table. The balance of power in negotiations, still heavily oriented towards patentees of course, has shifted slightly towards licensees.

- **3. Are the issues clearly defined?**

By the time of the 3G hearing in March 2006, the judge had already presided over the full five-week trial in the 2G action. Having seen ETSI standards and the patent claims in that action, he was in no doubt that the issues associated with deciding whether compliance with a standard would require infringement of a patent were sufficiently clearly defined for him to make a decision. But this may vary from case to case.

#### Implications

The *Nokia* cases show consistently that the English court is willing to hear disputes about essentiality. The English court's willingness to tread where ETSI will not will be welcomed by newer industry players (the natural licensees), who find themselves under pressure in licensing negotiations due to the weight of "essential" patent numbers claimed against them. The threat of litigation on essentiality should keep patentees honest.

These newer players often include Japanese, Korean, and Chinese companies, but in any event it is worth saying that the major players there are running massive patent filing programmes themselves – the biggest are each filing hundreds of applications each year already.

In addition, particularly in Europe, there is increased interest in using European competition law to redress the negotiation balance. But one thing is for sure – the fundamental policy conflict between the setting of standards and protection of intellectual property will last as long as will exist the desire for new technology.





**Asserting & Protecting Your Technology Rights  
in Europe - How are Where to Obtain a  
Competitive Advantage**

**William Cook, Partner  
Simmons & Simmons**

ACC's 2006 Annual Meeting: The Road to Effective Leadership

October 23-25, Manchester Grand Hyatt



**Asserting & Protecting Your Rights in  
Europe**

- What
- Where
- How

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## What Rights to Assert

- Patents
- Copyright, including databases
- Confidentiality, including knowhow
- (Trade Marks)
- (Designs)
- (And contractual rights)

## Patents (1): What to assert

- The basics - EPC
  - Centralised application system
  - EPO success! 178,000 applications in 2005, and over 700,000 currently in force
  - Procedure leads to bundle of national rights
  - Each enforceable in local Courts on country-by-country basis



## Patents (2): What to assert in the area of software/business methods

- Computer programs and business methods in Europe: patenting is prohibited “as such”
- But patenting is permitted nevertheless where there is a “technical contribution”
- The view from the Courts of NL, UK, DE, FR, IT
- The European Commission’s efforts have been thwarted



## Patents (3): Where to assert

- BUT:
  - NL/DE Courts have adopted cross-border jurisdiction
  - Until two recent ECJ decisions
    - GAT v LUK
    - Roche v Primus
  - Which limit cross-border jurisdiction significantly
  - There are arguments that some residual cross-border jurisdiction remains, but these are not likely to be significant (but query “interim” injunctions)



## Patents (4): Where to assert

- Germany
- The Netherlands
- UK
- France
- Italy



## Patents (5): Where and how to assert: GERMANY

- Infringement action entirely separate to invalidity (nullity) proceedings
- Only stayed if there is a serious challenge to validity
- Preliminary injunctions available in urgent, clear and easy cases under strong patents
- Can be quick and inexpensive (Dusseldorf/Mannheim)
- But evidence gathering is difficult
- And damages less favourable



## Patents (6): Where and how to assert: THE NETHERLANDS

- Cross-Border relief available before *GAT* and *Roche* cases
- Preliminary seizures available
- Court proceedings particularly suitable for following up border detentions
- Injunctions where patent is strong and infringement is clear-cut
- But can be slower than UK/DE (even under “accelerated” procedure)

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## Patents (7): Where and how to assert: THE UNITED KINGDOM

- Limited disclosure
- Expert evidence required
- Declarations on non-infringement possible
- Declarations of *non-essentiality* possible in relation to patents asserted over technology standards
- Interim injunctions available
- But proceedings are expensive
- NB patents covering computer systems with separate servers located around the world...

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## Patents (8): Where and how to assert: FRANCE

- “Saisie” (seizure)
  - court bailiff, expert, police attend premises
- Followed by (lengthy) main proceedings
- Possibility of injunctive relief (but not common) where case is clear and there is urgency
- Rotation of judges: unpredictability
- 2 years for a decision



## Patents (9): Where and how to assert: ITALY

- Preliminary procedures are good:
  - search of premises can be avoided
  - interim injunctions within weeks
- But substantive proceedings are lengthy
  - experts instructed
  - oral proceedings rare
  - 2-3 years for a judgment?



## **Patents (10): Where and how to assert: WHAT'S HOT?**

- Border detentions (NL)
- Declarations of non-essentiality (UK)



## **Patents (11): Where and how to assert: EU BORDER DETENTIONS**

- EU port of entry
- Detention of IP infringing goods by customs authorities
- Without court hearing
- For up to 10/20 days
- Then commencement of litigation
- Comparative analysis of the procedure in NL/UK/DE/FR/IT



## **Patents (12): Where and how to assert: DECLARATIONS OF NON-ESSENTIALITY**

- Assertion of essentiality to standards-setting body
- Challenge in the English courts
- Used for major cross-licence negotiations



## **Patents (13): Where and how to assert: THE EPLA**

- The future - The European Patent Litigation Agreement
- Enforcement in one court for several European countries
- Validity and infringement
- The judges' and the Commission's view
- Language?





## Copyright (1): What to assert

- The basics
  - original works
  - including software
  - protection for life plus 70 years
  - should be enforceable across Europe in a single jurisdiction
  - must be copying to infringe...

## Copyright (2): What to assert

- Software: extent of protection
  - source and object code
  - detailed architecture
  - specifications
  - not concepts
  - consider databases also



## Copyright (3): How and where to assert

- Approach of UK/NL/DE/FR/IT courts
- Interim injunctions
- Proof/inference of copying



## Confidentiality: How and where to assert

- Typically requires (1) confidential information, (2) confidential communication and (3) misuse
- “Know-how” - combination of rights based in confidentiality, copyright and personal property
- Approach of UK/NL/DE/FR/IT courts
- Interim injunctions
- Proof/inference of copying

Paper for ACC's 2006 Annual Meeting: *The Road to Effective Leadership*  
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The following is the text of a client flyer prepared by Simmons & Simmons in August 2006.

### ECJ ruling against European cross-border relief will provide further impetus for a European Patents Court

On 13 July 2006, the long awaited decisions of the European Court of Justice ("ECJ") were given in the cases of *GAT v LuK*<sup>1</sup> and *Roche v Primus*<sup>2</sup>. To the disappointment of some, the ECJ appears to have prohibited cross-border relief, bringing the Dutch and the German patents courts (which were willing to grant such relief in certain circumstances) in line with the English patents court (which has always refused to grant such relief). However, the decisions are such that both the Dutch and German patents courts may continue to grant cross-border relief in certain circumstances. Whether they do so or not, will have to be seen. However, the decisions will undoubtedly provide further impetus for many in industry to call for a centralised European Patents Court to be established as soon as possible, enabling parties to litigate European patents on a Europe-wide basis.

This article reviews the background to the two ECJ decisions, the decisions themselves and their likely impact on the future availability of cross-border relief from the Dutch and German courts.

#### Background

In the 1970s, the European Patent Convention ("EPC") established a new system of patent law and a new patent granting authority for all contracting states, the European Patent Office ("EPO"). The EPO grants "European patents" under the EPC which, upon grant, take effect as separate national patents (and not as a single unitary right) in each of the contracting states designated by the patentee<sup>3</sup>. Once granted, it is open to parties to litigate the validity and/or infringement of a European patent in each of the national courts of each of the designated contracting states - e.g. parties can litigate the European Patent (Germany) in the German courts, the European Patent (UK) in the UK courts and so on. Apart from decisions by the EPO regarding validity of a European patent in oppositions to the grant of the patent (filed within 9 months after grant), there is no centralised court which can decide issues of validity or infringement in respect of a European patent on a Europe-wide basis.

In accordance with the EPC, contracting states harmonised their national laws as to patentability so that, as far as possible, the national courts of each contracting state would approach the issue of the validity of granted European patents in the same way as the EPO<sup>4</sup>. The harmonised law

<sup>1</sup> *Gesellschaft für Antriebstechnik mbH & Co KG v Lamellen und Kupplungsbau Beteiligungs KG*, Case C-4/03 on a request for a preliminary ruling by the Oberlandesgericht (Higher Regional Court) of Düsseldorf, Germany.

<sup>2</sup> *Roche Nederland BV and others v Dr Frederick James Primus and another*, C-593/03 on a request for a preliminary ruling by the Hoge Raad (Supreme Court) of The Netherlands.

<sup>3</sup> There are currently 31 EPC contracting states, including 24 of the 25 EU member states (Malta has not acceded to the EPC).

<sup>4</sup> In addition to the EPC, a number of EU countries including The Netherlands, Germany and the UK have acceded to and ratified The Convention on the Unification of Certain Points of Substantive Law on Patents for Invention ('Strasbourg Convention' 1963).

also included rules as to the interpretation of patent claims. This in turn meant (at least in theory) that the law as to whether a product or process claimed by the patent falls within the claims of a patent for purposes of infringement was also substantially harmonised across the contracting states. However, absent a centralised court, over the last 30 years the law has received differing interpretations by the different national courts of the contracting states.

Further complexity is provided by the Brussels Convention on Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial Matters now re-enacted by the 'Brussels Regulation' (Council Regulation (EC) No. 44/2001)<sup>5</sup>. The starting point in the Brussels Regulation is that a defendant should be sued in the EU member state where he is based ('domiciled') no matter where in the European Union the wrongful act has taken place and irrespective of the defendant's nationality (Article 2). However, the defendant may alternatively be sued in the EU member state where the wrongful act (e.g. an alleged act of patent infringement) took place (Article 5(3)) irrespective of the defendant's domicile. Furthermore, Article 6(1) allows several defendants to be sued in the state of domicile of any one of them where there is a risk of "irreconcilable decisions". Once one court has been properly "seised" of a dispute (that is, the necessary formalities under national law for the commencement of proceedings have been complied with), all other courts in the European Union are obliged to decline jurisdiction (Article 27(1)), although notably they are permitted to grant interim relief in accordance with their own national laws where appropriate (Article 31). Finally, Article 22(4) expressly reserves jurisdiction regarding patent validity to the courts of the country where the patent is registered.

The practical effect of the EPC and Brussels Regulation is that patent litigation in Europe is often complex, and parties will often select countries in which to commence proceedings on the basis of the perceived advantages of local procedures and other tactical considerations, rather than any substantive consideration of the most objectively appropriate court (so-called 'forum shopping'). In particular, patentees and companies fearing infringement proceedings seek to exploit the jurisdictional rules of the Brussels Regulation to choose a court which will enable the dispute to be resolved rapidly (for the patentee) or slowly (by the putative infringer). In relation to the latter, in addition to commencing proceedings before the courts of a country whose procedures are slow, a putative infringer may also seek from that court a declaratory judgment of non-infringement not only of the local national patent but also of all foreign counterparts throughout Europe. If the patentee then brings infringement proceedings in any other EU member state, the courts of that state must stay the proceedings (in accordance with Article 27(1), above) until the original court has made its own decision as to jurisdiction which might take many months or even years. Such a declaratory action is known as a "torpedo" action.

For many years it has been argued (successfully, in certain cases, before the Dutch and German courts) that the rules of the Brussels Regulation allow a patentee to ask a single court in Europe to decide the issue of infringement of a European patent in all relevant EU countries, the patentee often seeking a cross-border injunction by way of relief - i.e. an injunction to restrain acts of infringement in all relevant EU countries in which the European patent has been granted. In the Netherlands, for example, the Dutch court ruled<sup>6</sup> that it could grant a pan-European injunction when the company with the key responsibility for the infringing activity occurring in other EU member states was based in the Netherlands (or where the controlling company was entirely outside the EU, for example in the US) - the so-called 'spider in the web' doctrine. This view has also been shared by the Düsseldorf court. Patent lawyers and the national courts of EU member states have therefore long awaited an authoritative decision by the ECJ on the underlying jurisdictional questions relating to the above 'procedural games'. Until the most recent decisions,

<sup>5</sup> Denmark is the only EU member state not to have ratified the Brussels Regulation, but the Brussels Convention continues to apply in relation to Denmark.

<sup>6</sup> *Expandable-Grafts Partnership -v- Boston Scientific BV*. Court of Appeal, The Hague: 23 April 1998.

all the cases that had previously been referred to the ECJ settled prior to any Judgment being given.

Both *GAT-v-LuK* and *Roche-v-Primus* concerned attempts to avoid the need to litigate separately in each EU member state essentially the same issues in relation to alleged infringing activities. Accordingly, each case sought clarification of the operation of the Brussels Regulation, specifically Article 22(4) in the case of *GAT-v-LuK*, and Article 6(1) in the case of *Roche-v-Primus*. As mentioned above, the starting point of the Regulation is that a defendant should be sued in the EU member state where he is domiciled, no matter where in the European Union the wrongful act has taken place (Article 2). However, the defendant also may be sued in the EU member state where the alleged act of patent infringement took place (Article 5(3)). Furthermore, Article 6(1) also allows in certain circumstances several defendants to be sued in the state of domicile of any one of them. Finally, Article 22(4) expressly reserves jurisdiction regarding patent validity to the courts of the country where the patent is registered.

Specifically, Article 6(1) reads:

"A person domiciled in a Member State may also be sued:

- (1) where he is one of a number of defendants, in the courts for the place where any one of them is domiciled, provided the claims are so closely connected that it is expedient to hear and determine them together to avoid the risk of irreconcilable judgments resulting from separate proceedings;"

Thus the scope of this article depends on how the terms "closely connected" (in respect of the claim(s) against defendants domiciled in the country in which the action is commenced, on the one hand, and claim(s) against defendants not domiciled in the country in which the action is commenced, on the other hand), and "irreconcilable judgments" (in respect of the outcome of the potentially separate proceedings) are defined.

Article 22(4) reads:

"The following courts shall have exclusive jurisdiction, regardless of domicile:

- (4) in proceedings concerned with the registration or validity of patents, trade marks, designs, or other similar rights required to be deposited or registered, the courts of the Member State in which the deposit or registration has been applied for, has taken place or is under the terms of a Community instrument or an international convention deemed to have taken place."

The question is would a declaratory action for non-infringement in which the claimant pleads invalidity of the patent as part of its case on non-infringement be proceedings "concerned with the ... validity of [the] patent".

Finally, Article 27 states that "related actions" involving the same cause of action and parties should only be brought in one member state court, the court in which the action is first commenced.

Article 27(1) reads:

"Where proceedings involving the same cause of action and between the same parties are brought in the courts of different Member States, any court other than the court first seised shall of its own motion stay its proceedings until such time as the jurisdiction of the court first seised is established."

### The ECJ decisions

#### **GAT v LuK**

GAT and LuK are both German companies competing in the field of motor vehicle technology. GAT offered to supply hydraulic shock absorbers to Ford-Werke AG, a German based motor vehicle manufacturer. LuK alleged that the said shock absorbers infringed two of its French patents.

GAT brought a declaratory action before the Landgericht (Regional Court), Düsseldorf to establish that it did not infringe the French patents and, notably, pleaded invalidity of the French patents as part of its case on non-infringement. The Landgericht Düsseldorf considered that it had jurisdiction to adjudicate upon the action relating to the alleged infringement of the French patents as well as the claim to the alleged invalidity of those patents (which it determined in accordance with French patent law). Under German law (as in other European jurisdictions), if invalidity of any foreign patents is pleaded either by a claimant in a declaratory action (as here), or by means of a defence to an infringement action (rather than by way of a separate claim) any court ruling would have *inter partes* effect only, and would not affect the validity of the patent *erga omnes*. The Landgericht dismissed the action brought by GAT, finding that the patents were valid.

On appeal by GAT, the Oberlandesgericht (Higher Regional Court) Düsseldorf decided to stay the proceedings and referred the following question to the ECJ for a preliminary ruling:

*"Should Article 16(4) of the Convention [equivalent to Article 22(4) of the Regulation – see above] ... be interpreted as meaning that the exclusive jurisdiction conferred by that provision on the courts of the Contracting State in which the deposit or registration of a patent has been applied for [in this case France], has taken place or is deemed to have taken place under the terms of an international convention **only** applies if proceedings (with erga omnes effect) are brought to declare the patent invalid **or** are proceedings concerned with the validity of patents within the meaning of the aforementioned provision where the defendant in a patent infringement action or the claimant in a declaratory action to establish that a patent is not infringed pleads that the patent is invalid or void and that there is also no patent infringement for that reason [as GAT had done in this case], irrespective of whether the court seised of the proceedings considers the plea in objection to be substantiated or unsubstantiated and of when the plea in objection is raised in the course of proceedings?"*

In summary, the issue to be considered by the ECJ was could the German courts determine whether GAT's proposed activities in France would infringe LuK's French patents, given that GAT had merely sought a declaration in an infraction that the French patents were invalid, or does the exclusive jurisdiction of Article 22(4) (see above) apply whenever, and however, the putative infringer has brought invalidity into issue?

The ECJ held that although the scope of Article 22(4) could not be established from its wording, Article 22 must be interpreted by reference to its objective and in the context of the rest of the Regulation. The ECJ held that given that Article 22(4) seeks to ensure that jurisdiction rests with those courts most closely linked to the proceedings in fact and law, the French courts (the courts of the member state in which the patents had been registered) would have exclusive jurisdiction whichever form of proceedings had been used to put the validity of the patents in issue (i.e. irrespective of whether validity of the patent had been raised by the claimant in declaratory proceedings (as it had been by GAT), by way of a defence to an infringement action, or by the defendant having brought a claim for invalidity of the patent). The ECJ considered that to allow national courts the freedom to rule *inter partes* on validity of foreign patents would increase the risk of conflicting decisions and undermine the mandatory nature of Article 22(4).

Therefore, the ECJ decision confirms the fact that Article 22(4) applies as soon as validity of the foreign European patent(s) is put in issue (irrespective of domicile or the location where the alleged wrongful act took place), preventing courts establishing cross-border jurisdiction over both EU defendants and non-EU defendants.

#### **Roche v Primus**

The inventors and proprietors of a European patent relating to monospecific antibodies for carcinoembryonic antigens, Dr Primus and Dr Goldenberg, brought an action before the District Court of the Hague against Roche Nederland BV, a Dutch company, and eight other companies in the Roche group based in the United States, Belgium, Germany, France, the United Kingdom, Switzerland, Austria and Sweden, respectively.

Primus and Goldenberg (who were based in the US) claimed that all the Roche companies had infringed their patent by selling immuno-assay kits in each of the countries where the individual defendants are based. The eight Roche companies not based in the Netherlands contested the jurisdiction of the Dutch courts on the basis they did not infringe and contested the validity of the local patents. The court considered that it had jurisdiction but found against Primus and Goldenberg.

On appeal, the Dutch Court of Appeal set aside the first instance judgment and, *inter alia*, prohibited the non-Dutch Roche companies from infringing the patent in all the countries for which it was granted. The Hoge Raad (Dutch Supreme Court) subsequently stayed the proceedings and referred the following questions to the ECJ for a preliminary ruling:

- “(1) *Is there a connection, as required for the application of Article 6(1) of the Brussels Convention, between a patent infringement action brought by a holder of a European patent against a defendant having its registered office in the State of the court in which the proceedings are brought, on the one hand, and against various defendants having their registered offices in Contracting States other than that of the State of the court in which the proceedings are brought, on the other hand, who, according to the patent holder, are infringing that patent in one or more other Contracting States?*
- (2) *If the answer to Question 1 is not or not unreservedly in the affirmative, in what circumstances is such a connection deemed to exist, and is it relevant in this context whether, for example,*
- *the defendants form part of one and the same group of companies?*
  - *the defendants are acting together on the basis of a common policy, and if so is the place from which that policy originates relevant?*
  - *the alleged infringing acts of the various defendants are the same or virtually the same?”*

In summary, the issue raised by the Dutch Supreme Court was whether the Dutch courts could grant an injunction to patentees pursuant to Article 6(1) of the Regulation not only in respect of the infringement of a local patent but also for infringement by other companies of the corresponding patents in EU member states and, if so, what was the requisite relationship between the infringing companies (i.e. addressing the issues that the Dutch courts had considered in propounding the ‘spider in the web’ doctrine mentioned above)?

If one member state’s courts could exercise jurisdiction to decide these matters beyond its borders, then the courts of other member states would have to decline jurisdiction and wait for,

and then give effect to, the first court’s ruling in accordance with Article 27 of the Brussels Regulation. As already discussed, from a litigation tactics point of view, the result would be that a litigant could pick either a fast or slow court to decide the matter as it wished, knowing that its opponent would then be unable to have the matter decided in another state on a different timescale; also this would allow smaller litigants such as Primus and Goldenberg to take on large opponents such as Roche more cheaply via one central enforcement action.

The ECJ took the questions together and considered whether Article 6(1) applies to patent infringement proceedings involving a number of companies in various contracting states in respect of acts committed in one or more of those states and, in particular, the situation where those companies, which belong to the same group, have acted in an identical or similar manner in accordance with a common policy elaborated by one of them. The ECJ reaffirmed the formulation in *Kalfelis*<sup>7</sup> that for Article 6(1) to apply there must exist between the various actions brought by the same claimant against different defendants, a connection of such kind that it is expedient to determine the action together in order to avoid the risk of irreconcilable judgments resulting from separate proceedings.

However, the ECJ did not consider it necessary to decide whether “irreconcilable judgments” resulting from potentially separate proceedings meant either (i) merely involving the risk of conflicting decisions, or (ii) entailing legal consequences which are mutually exclusive. The ECJ held that<sup>8</sup>:

*“...even assuming that the concept of ‘irreconcilable’ judgments for the purposes of the application of Article 6(1) ... must be understood in the broad sense of contradictory decisions, there is no risk of such decisions being given in European patent infringement proceedings brought in different Contracting States involving a number of defendants domiciled in those States in respect of acts committed in their territory.”*

Notably, the ECJ held that in order for decisions to be regarded as contradictory, it is not sufficient that there only be a divergence in the outcome of the dispute, but that the divergence must also arise in the context of the same situation of law and fact.

The ECJ held that in *Roche-v-Primus*, which concerned European patent infringement proceedings involving a number of companies established in various member states in respect of acts committed in one or more of those states, the existence of the same factual scenario could not be inferred, since the defendants were different and the infringements they were accused of, committed in different contracting states, were not the same. The ECJ held that possible divergences between decisions given by the courts of each member state would not arise in the context of the same factual situation and would not satisfy the requirement of “irreconcilable judgments” in *Kalfelis*.

The ECJ warned that a different view would only encourage the practice of forum shopping which *Kalfelis* sought to prevent. Accordingly, the ECJ held that Article 6(1) does not provide jurisdiction in European patent infringement proceedings.

#### **The Netherlands**

The view taken by the English courts (as well as the German courts in Mannheim) is that issues of infringement and validity of a European patent are inseparable and therefore Article 22(4) of the Brussels Regulation prevents a national court from deciding the issue of infringement for other

<sup>7</sup> *Kalfelis –v- Schröder Case 189/87*

<sup>8</sup> *At paragraph 25 of the Judgment*

EU Member States whenever and however invalidity is raised (see *Coin Controls –v- Suzo*<sup>9</sup>).

However, the view of the Dutch Supreme Court (which the German courts in Düsseldorf have also tended to follow, see below) is that issues of infringement and validity of a European patent (which by virtue of the EPC is construed (at least in theory) in the same way across EPC member states (including all the EU countries save Malta)) are separable, and therefore Article 22(4) of the Brussels Regulation does not prevent a national court from deciding on the issue of infringement of a European patent for other EU member states and, in appropriate circumstances, granting a cross-border injunction.

It is important to note that in the *Roche-v-Primus* case itself, the Dutch Supreme Court only referred questions to the ECJ in respect of jurisdiction relating to the non-Dutch based European Roche companies. In relation to the Dutch and the US based Roche companies (i.e. the national and non-EU defendants), the Dutch Supreme court held in accordance with the Dutch Code of Civil Procedure:

*"The mere fact that serious indications exist that a foreign part of the European patent is invalid, constitutes no reason for the court to hold back from a decision regarding infringement by a party against whom the court has (for that matter) determined to be competent: a granted patent is valid until it is revoked or invalidated."*

Thus, the Dutch Supreme Court distinguished between those defendants in relation to which it considered the Brussels Regulation applied (i.e. non-Dutch European defendants) and those in relation to which the Brussels Regulation does not apply, but national law applies (i.e. non-EU defendants and proceedings between national parties). For example, following the *Roche-v-Primus* decision, the Supreme Court ruled similarly in the case of *Philips-v-Postech* on 19 March 2004 concerning non-EU based defendants. The Supreme Court held:

*"[...] if the Dutch court has jurisdiction based on any (commune) jurisdiction provision in respect of a claim regarding infringement of a foreign intellectual property right, it has in principle, if requested by the claimant, also jurisdiction to give a cross-border injunction with regard to acts committed by the defendant outside the Dutch territory. The same applies for interim injunction proceedings irrespective of the ground on which the jurisdiction is based."*

The Dutch Court of Appeal in *Fokker-v-Parteuropa* on 24 March 2005 (after the Attorney-General's Opinion had been given in *GAT-v-LuK* and *Roche-v-Primus* in September 2004) accepted cross-border jurisdiction against a national defendant, on the basis of the reasoning put forward by the Dutch Supreme Court in *Roche-v-Primus* (above), namely that so long as the patent in suit is in force, it is considered to be valid.

However, as previously mentioned, the ECJ decision in *GAT-v-LuK* confirms the fact that Article 22(4) applies as soon as the validity of the foreign European patent is put in issue (irrespective of domicile or the location where the alleged wrongful act took place), preventing courts establishing cross-border jurisdiction over both EU defendants and non-EU defendants.

In contrast to the approach by the Dutch Court of Appeal/Supreme Court, the District Court of The Hague's approach to determining cross-border jurisdiction against national defendants (under Article 2 of the Brussels Regulation and national law) following the Attorney-General's Opinion in *GAT-v-LuK* and *Roche-v-Primus* in September 2004 has been to assess whether the case in issue is 'purely' an infringement case, or whether the defendant had raised an invalidity defence. In the case of the latter, the District Court held that it only had jurisdiction to hear the case in

<sup>9</sup> *Coin Controls Ltd –v- Suzo International (UK) Ltd & Others [1997] 3 ALL ER 45*

respect of the Dutch patent and not its foreign counterparts. It is therefore likely to continue this practice, and consider Article 22(4) to be applicable irrespective of whether jurisdiction is based on the Brussels Regulation or national law contrary to the previous findings of the Dutch Supreme Court.

In accordance with the previous ECJ decision in *Shevill*<sup>10</sup>, in cases where a European defendant is being sued before the Dutch courts on the grounds that the infringement allegedly occurred in The Netherlands (i.e. under Article 5(3) of the Brussels Regulation), the District Court has continued to refuse to grant cross-border relief in respect of any alleged infringements carried out in respect of the foreign counterparts of the European patent<sup>11</sup>.

Therefore, in summary, it would appear that following the recent ECJ decisions in *GAT-v-LuK* and *Roche-v-Primus*, the Dutch courts are likely to continue to assume cross-border jurisdiction in certain situations, as follows:

Basis for the Proceedings	Cross border relief possible against EU domiciled defendants?
<b>Article 2 Brussels Regulation</b>  E.g. Dutch based company sued in the Netherlands for infringement of Dutch and German patents	<b>Yes</b> - unless and until invalidity of patents put in issue, then Dutch court will only consider infringement/validity of the Dutch patent ( <i>GAT-v-LuK</i> ) and any other enforceable non-EU European patents
<b>Article 5(3) Brussels Regulation</b>  E.g. German based company and US based company sued in the Netherlands for infringement of both Dutch and German patents	<b>No</b>  Court will consider infringement by both companies in relation to the Dutch patent only ( <i>Shevill</i> )
<b>Article 6(1) Brussels Regulation</b>  E.g. Dutch based company, German based company and US based company sued in the Netherlands in respect of infringement of both Dutch and German patents	<b>No</b>  Article 6(1) does not provide the Dutch court with jurisdiction ( <i>Roche-v-Primus</i> ).  Therefore, in this example, the Dutch court would have jurisdiction in respect of the Dutch patent only as against the Dutch based defendant (under Article 2, see above comments) and against the German and US defendants (under Article 5(3), see above comments).

The ECJ decisions also raise a number of further issues, as follows:

1. It appears that the ECJ decisions do not apply where proceedings are brought for a declaration of non-infringement under Article 2 (e.g. claim for non-infringement of Dutch based defendant's European (Dutch) patent in the Netherlands) including other foreign

<sup>10</sup> *Shevill v Presse Alliance S.A., Case C-68/93*

<sup>11</sup> The position is the same in relation to non-European defendants where the Dutch court accepts jurisdiction based on article 5(3) of the Brussels Regulation.

counterparts to that European patent, so long as the claimant does not seek to assert non-infringement on the basis that the patent is invalid (as in *GAT-v-LuK*).

Have the decisions therefore given encouragement to a possible Dutch 'torpedo', such that Article 27 would prevent other EU member states from assuming jurisdiction over any infringement proceedings commenced by the same defendant(s) in other EU members states in relation to any one of the foreign counterparts already issue in the Dutch proceedings? The answer is yes but unlike earlier torpedoes, this one is a swift one and therefore not likely to be used.

2. Article 31 allows parties to apply to courts of member states for "provisional including protective measures as may be available under the law of that state, even if the courts of another member state have jurisdiction..." (emphasis added). Accordingly, even where a *GAT-v-LuK* defence is raised and invalidity of the patent is put in issue, it would appear that parties will still be able to obtain preliminary relief (which may include a cross-border injunction) in the Dutch courts under Article 31 of the Brussels Regulation as Article 22(4) would appear only to apply to proceedings on the merits rather than interim proceedings.
3. Would a *Gillette* or *Formstein* type defence (that the alleged infringement is identical to that disclosed in the prior art), be sufficient to raise invalidity of the patent, or are these considered only to be non-infringement (rather than invalidity) defences?
4. Although the ECJ in *GAT-v-LuK* held that Article 22(4) will apply whenever invalidity is put in issue, it did not comment on whether the 'strength' of the invalidity case was relevant. It will have to be seen whether the Dutch courts nevertheless continue to assess the 'seriousness' of any invalidity pleading, in accordance with their previous practice, when considering whether a case is purely an infringement case.

Therefore, although the ECJ appears to have prohibited cross-border relief, it may still be possible in certain circumstances before the Dutch courts.

#### Germany

In most European countries the court hearing a patent infringement claim will also take jurisdiction over issues of validity, whether raised as a defence or as a counterclaim or both, enabling the court to consider the scope of the claims once, for assessment of both infringement and validity. In Germany, however, validity of German patents is decided by way of separate court proceedings brought before the Federal Patents Court in Munich. This means that invalidity cannot be raised *per se* as a defence to an infringement claim. However, an infringement claim may be stayed or suspended pending the decision on validity by the Federal Patents Court (or where there are ongoing EPO Opposition proceedings). In Germany, the practice is generally to stay the infringement claim only if there is a strong case of invalidity. Since the procedures of the infringement courts (the Landgerichte) are often more rapid than those of the Federal Patents Court (the Bundespatentgericht), an injunction can be granted in Germany under a patent which is subsequently revoked.

Prior to the above ECJ decisions, the Düsseldorf court has granted a number of cross-border injunctions. In so doing, the Düsseldorf court divided the cases which concerned the Brussels Regulation into those which (i) only have a German based defendant (i.e. the court has jurisdiction under Article 2 of the Brussels Regulation); (ii) where there are several non-German based defendants in addition to, at least, one German based defendant (admissible under Article 6(1); and (iii) the act complained of had taken place in Germany (admissible under Article 5(3)).

To date, cross-border relief has not been granted under article 5(3), but the Düsseldorf court has granted cross-border injunctions only if it has jurisdiction under Articles 2 or 6(1) (but only on the

basis that the parties are sufficiently 'connected' in respect of the latter), or in relation to preliminary injunction proceedings. For example, the courts in Germany have held in certain, exceptional, circumstances that the filing of "torpedo" proceedings in another jurisdiction can be sufficient by itself to satisfy for the German court to grant an interim injunction in Germany.

The Düsseldorf court has also taken the view that it can decide on the validity of any foreign counterparts in accordance with the appropriate foreign law. This is despite the fact that, as mentioned above, patent validity in Germany is subject to separate proceedings brought before the German Federal Patents Court. If a defendant raises the validity of any national patent(s) in the course of infringement proceedings, the German courts will only consider whether it should stay the infringement proceedings on the basis that the validity of the national patent(s) appear in doubt (for example, if 'strong' new prior art is raised by the defendant).

Conversely, the Mannheim court has taken the same position as the English courts finding that it does not have jurisdiction to hear a claim in which the defendant has been sued for patent infringement of the European patent in a country other than that which has granted the patent, if the validity of the foreign counterparts are put in issue.

It would appear that the possibility for the German courts to grant cross-border patent injunctions is now much more limited following the recent ECJ decisions. However, similar to the position discussed above in connection with the Dutch courts, cross-border relief may still be possible in certain circumstances, and points 1 – 3 above would appear to apply equally to the German courts.

The decisions will certainly provide further impetus for many in industry to call for a centralised European Patents Court to be established as soon as possible, enabling parties to litigate European patents on a Europe-wide basis. Following the failed attempts by the European Commission in Brussels (the executive arm of the EU) to establish a new Community Patent (which upon grant would take effect throughout the EU as a single unitary patent and which could only be litigated in specialised courts with jurisdiction for the whole of the EU), the Commission is now looking more positively at the proposals backed by many of Europe's leading IP Judges, known as the European Patent Litigation Agreement ("EPLA"). Having recognised the problems of the current patent litigation system in Europe, a working party drawn from a group of EPC contracting states have negotiated a draft agreement to create a single court system which will deal with all post-grant patent litigation concerning European Patents in those particular countries. Although a number of issues remain to be resolved, it is thought that we could see the EPLA proposals – and therefore a common litigation court – in force within two years.

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## Hot Topics in Enforcement of Technology IP in Europe

The regime for enforcement of IP in Europe differs greatly from the regimes in the US and Asia. This note gives an up-to-date view of some developments in Europe relating to "technology IP", used here to mean both software copyright and patents relating to software/telecoms/electronics. We short-circuit lengthy background about the various legal systems and go straight to the latest news: what developments will inform decisions of US Counsel concerning technology IP in Europe?

### What's hot across Europe?

- **"Software patents" continue to be granted**

Although the European Parliament failed to institute legislation making *explicit* that certain software patents are available, patents involving software are still available if they contain a *technical contribution* which is not obvious and not related to mere operation of the software as such. An effect on technology outside the computer system or upon the way the system itself operates constitutes such a contribution. US companies should continue to file for European patents relating to software.

- **Cross-border patent enforcement centrally**

The likelihood of a central patent infringement court, for asserting patents across several European countries, is growing. Industry and the European judiciary already supports the EPLA (European Patent Litigation Agreement) and the European Commission supports it. If the EC report favourably later this year, an inter-governmental conference may follow in 2007. If the EPLA is ratified, quicker and cheaper cross-border enforcement will be possible in a one-stop-shop.

- **Cross-border patent enforcement in individual European Courts**

2 recent decisions of the European Court of Justice (ECJ) in 2006 have the effect that a court of an individual country will typically only be able to rule over *substantive* patent infringement in that country, not the rest of Europe ("cross-border"). This will restrict the practice of the German and higher Dutch courts, which previously granted such substantive cross-border relief, but cross-border *interim* relief will still be available. The EPLA (see above) may pave the way for a more regulated, uniform approach across Europe. But, for the moment, the suitability of litigation in each country must be considered.

### What's hot in the UK?

- **Declarations of non-essentiality**

The Court is now willing to hear applications for declarations of non-essentiality. Potential licensees (typically cellular handset or network manufacturers) of 3G "essential" patents can test the assertions of patentees that their nominated patents are "essential" to agreed technology standards (e.g. GSM and 3G ETSI standards). Such declarations are likely to assist licensees in negotiations for licenses: they should seek declarations where licensors have acted unreasonably.

- **Faster cheaper enforcement in simpler cases**

Smaller scale patent litigation can be resolved using the "streamlined procedure" which limits the amount of disclosure (discovery), the extent of expert evidence and even the need for oral testimony. Legal costs may be less than \$200,000 per side including trial.

- **Rights in software enforced effectively**

Recent experience shows that the English Court will move quickly to restrict copying of software, especially by ex-employees departing with unauthorised copies of source code. Further, this willingness extends to confidential information embodied in the code (architecture, sequences). Injunctions and urgent ex parte orders can be obtained, sometimes within hours. However, claims for the copying of "look and feel" and user interface business logic have failed. For copyright infringement, code itself must be copied: if so, the English Court will move quickly to prohibit further infringement.

### What's hot in the Netherlands

- **Border Detention**

Dutch customs have proven particularly efficient in detaining goods at the port of entry into the EU (e.g. Rotterdam) which are alleged to infringe IPR. EU-wide legislation is in place to permit such detention, but the efficiency of the Dutch systems and experience of the Customs officers has rendered the country a particularly attractive venue for detention. Think of this as an "ITC-lite" procedure.

- **Rights in software protected**

The Business Software Alliance is very active in the Netherlands to protect software, including, for example, seizure of computers upon which alleged software is installed. The BSA should be contacted where software theft (copying) is suspected.

- **Pre-Judgment Seizure**

Regardless of customs detentions, goods can be seized by court bailiffs before any substantive litigation is commenced. A seizure order usually requires litigation to be commenced within months and can be challenged, but recent experience has shown that seizures disrupt supply chains significantly and often assist settlements.

### What's hot in Germany?

- **Patent litigation – pro-patentee procedure**

Germany continues to be an attractive country to litigate patents. The issues of infringement and validity are considered by separate Courts in Germany, so a potential infringer cannot raise invalidity as a defence to an infringement case. Instead, a separate nullity (invalidity) case must be brought: only if the invalidity case is strong will the infringement case be stayed. Further, the infringement case is usually quicker than the nullity case. The result: patentees can obtain injunctions for at least a few months before validity is considered in depth.

- **Evidence gathering – seizure orders**



*Ex-parte* seizure orders for obtaining infringement evidence are available. Over the last 2 years, the courts in Düsseldorf at least are encouraging applications for such orders, including in patent matters. These seizure orders are valuable assets, as proving infringement can sometimes be frustrated by the absence of document discovery.

- **Using the criminal law against patent infringers**

Patent infringement constitutes a criminal offence. A patentee can file a complaint with the public prosecutor, who will seize the alleged infringing goods if convinced that patent infringement will occur. This is particularly useful in trade fairs: under threat of criminal seizure, exhibitors will remove the goods from their stalls, and may not be able to get the seizure order lifted for days (eg. just before the closure of the fair).

### What's hot in France?

- **Seizures possible**

A patentee or licensee may obtain a Court order to enable a bailiff (and technical expert) to enter a competitor's premises and seize documents and product samples. No litigation need be commenced before the seizure: it will often be a surprise to the competitor. Seizure can only be carried out to the extent necessary to prove infringement, and for the information to be admissible in Court, an action must be started within 2 weeks. If litigation is anticipated, the seizure is a very powerful tool – useful for the case and highly disruptive to the defendant.

- **Software protection**

The Software Protection Agency assists rights owners in bringing Court proceedings, especially those involving seizures. The Agency can also be used to deposit copies of code confidentially, to prove ownership, and can even bring actions in its own name.

- **Proof of copying**

Obstruction of a seizure is likely to give rise to an inference by the Court that copying has in fact occurred.

### What's hot in Italy?

- **New procedural regime for IP litigation**

IP litigation is speeding up. 2003 legislation creating "specialised sections" for IP-related matters in the courts of the main Italian cities has been followed in 2005 by a new procedural regime applicable to litigation of patents, trade marks, know-how and related rights (copyright already being handled in a relatively efficient manner). Further procedural developments mean that there are now stringent procedural deadlines, evidentiary requirements and time limits, including the availability of injunctions. Early experience indicates that cases can come to trial within 2 years of commencement.

- **Inspections, injunctions and seizures**

As in France, it is possible to obtain an order from a Court to enter a suspected infringer's premises to collect information (including photos) on infringements before relevant litigation has started. The inspections are carried out by a court officer with the assistance

of experts. Moreover, courts are willing to award an IPR owner an interim order for an injunction or seizure of infringing objects or equipment used to produce them.

- **Interim transfer of business domain names**

A new interim measure concerning business domain names has been recently introduced. If an business domain name has been registered unlawfully, the Court can order its interim transfer to the claimant, so that the delay pending the litigation proceeding will not prejudice his interests. The Court may make the interim transfer conditional upon the payment of an adequate security by the claimant.