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TRADEMARKS

Hasbro Inc v 123 Nahrmittel GmbH: Acquired Distinctiveness Versus Descriptiveness

BACKGROUND

Hasbro's modelling clay for children, sold under the PLAY-DOH mark, has been in existence since the 1950s. Hasbro owns UK and Community trade marks for the words PLAY-DOH. Hasbro's product is not intended to be eaten.

Nahrmittel began selling its product, branded YUMMY DOUGH, a powdered dough mix designed to be played with and eaten, in the United Kingdom in 2009/2010. Hasbro objected to the use of the strapline, THE EDIBLE PLAY DOUGH!, which appeared on the packaging underneath the brand name and the use of the words "Play Dough Mix" and "Coloured Edible Play Dough Mix" on the box of YUMMY DOUGH.

Hasbro issued proceedings for trade mark infringement and passing off (*Hasbro Inc v 123 Nahrmittel GmbH* [2011] EWHC 199). Nahrmittel counterclaimed for declarations of invalidity and for revocation of Hasbro's trade marks. Nahrmittel also argued that they had used the words "play dough" merely to indicate the kind or quality of the goods.

DECISION

Validity and Revocation

It was not in dispute that the PLAY-DOH marks had strong elements that referred to the kind of goods for which they were registered. Floyd J considered that the phonetic identity of PLAY-DOH with "play dough" was the strongest argument against validity. However, Hasbro's market share, intensity of use, length of use and amount of promotional investment lead Floyd J to the "inescapable conclusion" that a large proportion of the relevant public would take the PLAY-DOH mark as denoting the Hasbro product. The validity attack therefore failed.

Floyd J dealt with revocation very briefly, noting that the evidence had not established that PLAY-DOH had become the common name in the trade for modelling compounds as a result of acts and/or inactivity on the part of Hasbro.

Infringement

Floyd J found that PLAY-DOH was not identical to "play dough" or the signs THE EDIBLE PLAY DOUGH!, "Play Dough Mix" and "Coloured Edible Play Dough" as the visual differences would not go unnoticed by the average consumer. Therefore, there was no infringement under Article 5(1)(a) of the Trade Marks Directive (2008/95/EC).

As for Article 5(1)(b), Floyd J noted that the strapline THE EDIBLE PLAY DOUGH! was used on the packaging of the product, visible at the point of sale, and that Nahrmittel had gone to great lengths to weave the phrase to form part of the YUMMY DOUGH mark. The strapline might be understood as having origin connotations itself and was therefore used in the trade mark sense.

In terms of likelihood of confusion, there was a strong conceptual similarity between the mark PLAY-DOH and the sign THE EDIBLE PLAY DOUGH!. Further, there was phonetic identity and visual similarity. In Floyd J's view, the PLAY-DOH marks had achieved household status and there was "undoubtedly a class of consumers who will see or hear the sign THE EDIBLE PLAY DOUGH! and be misled into thinking it is the product they know under the mark PLAY-DOH". Accordingly, infringement under Article 5(1)(b) was established.

As for Article 5(2), Floyd J said that the PLAY-DOH marks enjoyed the necessary reputation as they were known to a significant part of the public concerned. His findings on likelihood of confusion had already established a link or connection between the marks and the sign in the minds of the relevant public. Accordingly, the requirement of unfair advantage had been satisfied: misrepresenting the origin of goods was to take advantage of the goodwill attached to the marks. Alternatively, by bringing the marks to the mind in a way falling short of actual confusion, Nahrmittel had taken advantage of the goodwill attached to the marks. There was also detriment to the distinctive character of the PLAY-DOH mark as it was Hasbro's prerogative to decide on the types of goods associated with their goodwill and they had made a conscious decision not to promote the eating of PLAY-DOH.

Article 6 Defence

Floyd J found that Nahrmittel had not acted in accordance with honest commercial practices. Nahrmittel had proceeded on the assumption that the strapline was a descriptive term and that Hasbro would not be able to stop its use. However, Nahrmittel had not considered whether making it part of the brand name would have different implications. They were also aware of the possibility that consumers might think YUMMY DOUGH was a Hasbro product and that Hasbro had objected to the strapline.

Passing Off

Floyd J noted that consumers would be familiar with the various additional features of the Hasbro brand, such as the cloud logo. However, he was not satisfied that these additional features were sufficient to avoid confusion amongst a significant proportion of consumers. Passing off was therefore established.

***UK Gold Services Ltd v Dave Soho Ltd*: Unregistered Rights Opposition Against DAVE**

In *UK Gold Services Ltd v Dave Soho Ltd* [2011] B-1294448, the Office of Harmonization for the Internal Market (OHIM) rejected UK Gold Services' trade mark application for the word DAVE on the basis of an opposition by Dave Soho Ltd. The opposition was based on the common law rights against passing off.

BACKGROUND AND ARGUMENTS OF THE PARTIES

In July 2007, UK Gold applied to register the sign DAVE as a Community trade mark in respect of goods and services in Classes 9, 16, 28, 35, 38 and 41, which included "computer and video games, printed matter, advertising, broadcasting, communications and telecommunications, digital communications services, networking of television programmes, films, distribution of television programmes".

Dave Soho opposed the application, relying on its rights in the unregistered mark, trade name DAVE, and the company name Dave Soho Ltd, all in connection with goods and services in Classes 9, 16, 35, 38, 41 and 42. It based its opposition on the grounds that its use of DAVE was of more than mere local significance, which conferred on it the right to prohibit the use of a subsequent trade mark under national law, *i.e.,* the English law against passing off.

Dave Soho filed a substantial amount of evidence to demonstrate its earlier rights, claiming that it had been using the sign since 2003. The evidence included extracts from a television news website from 2004, news articles on its activities as co-producer of television programmes, lists of marketing industry awards won, and details of its projects with various other companies. It argued that the signs were identical, that UK Gold was fully aware of its existence when it filed the application and that DAVE was a highly distinctive mark for the goods and services in question. It claimed substantial goodwill and reputation in its business operating under the DAVE mark and that damage existed.

UK Gold argued that Dave Soho was a brand consultancy and its business did not extend to all the goods and services it had laid claim to. UK Gold claimed substantial goodwill and reputation existing since October 2007 and submitted that Dave Soho had failed to produce any evidence of actual confusion or misrepresentation. Further, it said, Dave Soho had not proven damage. Therefore, Dave Soho had failed to prove goodwill, misrepresentation and damage, all of which are needed to demonstrate passing-off.

DECISION

OHIM noted that most of Dave Soho's evidence pre-dated UK Gold's date of application and, further, that it showed use of the DAVE mark in the relevant jurisdiction, *i.e.,* the United Kingdom. The evidence also showed a "very considerable amount of sales" and "an extensive use" covering the relevant goods and services. The documents provided sufficient information concerning the commercial volume, frequency and duration of use of the DAVE sign.

The evidence also showed that such use was of more than mere local significance, demonstrated by the addresses on the invoices and the international awards won. Therefore, Dave Soho had demonstrated use in the course of trade of more than local significance in connection with the goods and services claimed.

OHIM noted that the law of passing off was "complex" and that, to succeed, the owner of an unregistered mark had to demonstrate the existence of goodwill, misrepresentation and damage.

In relation to goodwill and reputation, OHIM found that Dave Soho had submitted sufficient material to prove that it did indeed have goodwill and reputation in its business in the United Kingdom.

As for misrepresentation, OHIM said that the test was whether a substantial number of the public would believe that Gold UK's goods or services were that of Dave Soho, or were somehow connected in the course of trade to Dave Soho. OHIM found that the goods and services were nearly all either identical or similar except for UK Gold's "decorative magnets", in Class 9, and "stationery, pens, pencils, pencil sharpeners, erasers, pen and pencil cases; writing implements" in Class 16, none of which were listed by Dave Soho in its opposition and all of which had, according to OHIM, a "different origin, nature and intended purpose than any of the goods in the same class of the earlier rights". OHIM's conclusion was that, because the signs were identical and the goods and services were either identical or similar, the public might be led to believe that the goods and services offered by UK Gold originated from Dave Soho.

As regards damage, OHIM said that because consumers might reasonably assume that the goods and services had the same commercial origin, UK Gold would benefit from the goodwill of Dave Soho's earlier mark. Therefore, use of the DAVE application mark by UK Gold would "result in a potentially injurious association with the earlier signs, the diversion of sales or the dilution of the goodwill".

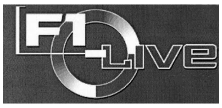
In conclusion, OHIM said that "all the conditions set down by the national law are met" and allowed the opposition in respect of all the goods and services it had found to be identical or similar, which was most of them, and rejected the opposition only in respect of "decorative magnets" and "stationery, pens, pencils, pencil sharpeners, erasers, pen and pencil cases; writing implements". In respect of these goods, the application mark was allowed to proceed.

Formula One Licensing BV v OHIM: Losing Distinctiveness

In *Formula One Licensing BV v OHIM* [2011] unreported, the General Court of the European Union has held that the combination of "F" and "1" would be perceived as an abbreviation of "Formula 1" and descriptive of racing cars and races. Accordingly, there was no likelihood of confusion between the F1 mark and a later figurative mark for "F1 live".

BACKGROUND

Racing-Live SAS (which later assigned the application to Global Sports Media Ltd) applied for the following Community trade mark (CTM) covering goods and services in Classes 16, 38 and 41:



Formula One opposed the application alleging infringement of Articles 8(1)(b) and 8(5) of CTM Regulation 40/94/EC (now 207/2009/EC) based on three earlier registrations (International, German and UK) for the word mark "F1" and an earlier figurative CTM, covering goods and services, in Classes 16, 38 and 41.

The Opposition Division of the Office for the Harmonization of the Internal Market upheld the opposition, finding a likelihood of confusion between the marks under Article 8(1)(b). The First Board of Appeal annulled the Opposition Division's decision and Formula One appealed to the General Court.

DECISION

Article 8(1)(b)

The General Court found that the evidence before them showed that Formula One had only promoted the "F1 logo" mark over the last 10 years, not the "F1" word marks. When granting licences, it had only included guidelines on the use of the "F1 logotype" mark. It found that "Formula 1" was used to designate, generically, the sport of motor racing, which the public did not specifically associate with races organised by Formula One, but rather with the top-end category of motor racing generally. The court considered that the evidence also showed that "F1" was a commonly used abbreviation of "Formula 1". They considered that "F1" was thus descriptive, and so the public would not consider it to be the dominant element of the overall impression conveyed by the application mark.

The Court found some degree of visual similarity between the application mark and the "F1" word marks because of the "F1" element which was common to all of them. However, the court also found that the application mark and the "F1" word marks differed by virtue of the presence of the word "LIVE" and a figurative element in the application mark. Phonetically, the addition of the word "LIVE" in the application mark was said to counterbalance the common element "F1", but there was still some degree of phonetic similarity between the marks.

The Court said that the addition of the word "LIVE" in the application mark made it "conceptually richer than the earlier marks" because it suggested the reporting or broadcasting of Formula 1 races in "real time". The degree of conceptual similarity between the marks was therefore found by the court to be weak.

It was considered by the Court that consumers only connect the Formula One group with the "F1 logo" mark and not with "F1" or "Formula 1" on its own, and as such consumers would not connect the "F1" element in the application mark with the Formula One group. Further, as "F1" was perceived as an abbreviation of "Formula 1" and descriptive of a category of motor racing, there could be no likelihood of confusion.

As for the "F1 logo" mark, the court considered that there was a lack of visual similarity and only weak phonetic and conceptual similarity between it and the mark applied for. Accordingly, there was no finding of likelihood of confusion. A significant factor in this decision was the finding of the court that the public attributed a generic meaning to the "F1" sign. This was said to result in the public understanding that the mark applied for referred to Formula 1 racing, but that the public would not make a connection between that mark and the activities of Formula One.

Article 8(5)

The finding of the General Court was that Formula One had only shown use and, possibly, reputation, in respect of its "F1 logo" mark, and that the presence of the elements "F" and "1" in the application mark was insufficient to support the inference that there was a link between the marks. Consequently, notwithstanding a certain phonetic and conceptual resemblance, the two signs were not regarded by the court as similar. The court considered that there was no need to examine the earlier mark's reputation or whether there was a risk that use without due cause would take advantage of or be detrimental to the distinctive character or reputation of the earlier marks.

COMMENT

This undoubtedly is not the final instalment in this story, and one imagines that this decision will be appealed. It is hard to see how the finding of the court that the public see "'F' and the numeral '1' as the generic designation of a category of racing car and, by extension, of races involving such cars" (emphasis added), and thus the finding of lack of distinctive character of this element, sits easily with the fact that the only category of racing cars and races involving such cars are those connected with the Formula One group, and thus there would appear to be no such generic category.

Potential Clarification of Counterfeits in Transit

Advocate General (AG) Cruz Villalón of the Court of Justice of the European Union (CJEU) provided his opinion recently on the detention by UK Customs of fake goods that were in transit to a non-EU country. Whilst the AG's Opinion is not binding, in the majority of cases judges in the CJEU do follow the AG's Opinion. The AG proposed that in certain circumstances the Customs authorities in the European Union can seize goods that are in transit but further clarification is needed from the CJEU to ensure that the test is not applied differently in individual EU Member States.

THE AG'S OPINION

In joined cases *Koninklijke Philips Electronics NV v Lucheng Meijing Industrial Company Ltd, Far East Sourcing Ltd, Rohlig Hong Kong Ltd* and *Rohlig Belgium NV C-446/09 (Philips) and Nokia Corporation v Her Majesty's Commissioner of Revenue and Customs C-495/09 (Nokia)* the AG's Opinion is as follows:

- *Philips* (a reference from a Belgian court)

  Article 6(2)(b) of the Council Regulation...3294,… is not to be interpreted as meaning that the judicial authority of the Member State … may take no account of the status of temporary entry or of transit of the goods in question, or, therefore, as meaning that the authority may apply the fiction that those goods were produced in that same Member State for the purpose of ruling, in accordance with the law of that State, whether or not they infringe the intellectual property right at issue.

- *Nokia* (a reference from the English High Court)

  Non-Community goods bearing a Community Trade Mark which are subject to customs supervision in a Member State and are in transit from one non- member country to another non-member country may be seized by the customs authorities provided that there are sufficient grounds for suspecting (i) that they are counterfeit goods and, in particular, (ii) that they are to be put on the market in the European Union, either in conformity with a customs procedure or by means of an illicit diversion.

If the AG Opinion is followed by the CJEU, the "manufacturing fiction" that is applied in some EU Member States will be effectively ended. There is no requirement for the goods actually to be put on the EU market, but there needs to be suspicion that this will happen despite the goods purportedly being bound for a non-EU market. The real question then is what constitutes "sufficient grounds for suspecting".

In order to provide some guidance, the AG stated that "suspicion" does not mean irrefutable findings but, on the other hand, customs authorities should not have total discretion in their action. The AG further stated that:

…for the customs authorities to be able lawfully to seize goods in transit subject to their control, they must at the very least have "the beginnings of proof", that is to say, some evidence that those goods may in fact infringe an intellectual property right.

It is hoped that the CJEU's decision does follow the AG's Opinion and also provides detailed guidance on how "sufficient grounds for suspicion" should be applied in practice. What needs to be avoided is a situation in which customs authorities and courts in individual Member States are allowed to interpret the guidance differently. This could then lead to counterfeiters choosing EU countries that are "easier" to transport their fake goods through.

PATENTS

Nokia GmbH v IPCom GmbH & Co KG: Pre- and Post-Trial Patent Claim Amendments

The Court of Appeal of England and Wales has ruled in favour of Nokia and rejected IPCom's appeal against the judgment of Mr Justice Floyd that two of IPCom's patents relating to cellular mobile technology were invalid and the subsequent refusal by Floyd J to accept pre- and post- trial applications to amend one of them. In so ruling, Lord Justice Jacob reaffirmed the principle that post-trial applications to amend claims of patents following validity attacks are most likely to be refused as this would constitute an additional trial on validity.

McDermott Will & Emery

BACKGROUND

These proceedings, *Nokia GmbH v IPCom GmbH & Co KG* [2011] EWCA Civ 6 were the first of five separate cases to come to trial in the ongoing battle between Nokia GmbH, Nokia UK Limited and Nokia OYJ (Nokia) and IPCom GmbH & Co KG (IPCom) being fought in various jurisdictions. Following a breakdown in licensing negotiations between the two parties, IPCom sued Nokia in Germany for infringement of two of its patents and Nokia retaliated by bringing revocation actions in Germany and in England, the latter in respect of no fewer than15 of IPCom's patents. IPCom consented subsequently to orders of revocation of 13 of those patents, leaving the two patents the subject of Floyd J's judgments now under appeal.

The two allegedly infringed patents related to cellular mobile phone technology. The first, EP (UK) No. 540 808 (the synch patent), was concerned with the way in which a mobile phone synchronises itself with the transmissions it receives from a base station. The second, EP (UK) No. 1 186 189 (the access rights patent), was concerned with management of the right of the mobile phone to connect to the network. Notably, Nokia applied to revoke a recently granted "divisional" of the access rights patent together with a claim for its infringement by IPCom. The trial concerning that issue is set for April 2011.

Floyd J held that both patents were invalid, but had they been valid, Nokia would have infringed. IPCom appealed against the finding of invalidity in relation to the synch patent but did not challenge the invalidity of the access rights patent. Nine days before the first trial, Nokia had served three expert reports and fresh prior art to which IPCom responded by submitting two applications for amendments to the access rights patent. On the first day of trial, Nokia withdrew its application to cite the fresh prior art, removing the cause for IPCom's application to amend the patent, but IPCom persisted with the applications. Floyd J refused both applications in the amendment proceedings on the grounds that the pre-trial application would have, without an adjournment, prejudiced Nokia's ability to respond adequately and that the post-trial application would have necessitated a new trial of issues that should have been dealt with in the main proceedings.

CURRENT APPEAL

The current appeal was against three judgments of Floyd J: the main judgment, one pre-trial amendment judgment and one post-trial amendment judgment. The questions before the Court of Appeal were whether the judge was right to revoke the patents, whether the patents would have been infringed and whether the judge had been right to refuse the amendments.

DECISION

Validity of the Patents

Lord Justice Jacob, giving the unanimous decision of the Court of Appeal, upheld Floyd J's finding that both patents lacked inventive step and were thus invalid. Accordingly, it was unnecessary for the Court to reconsider whether Nokia had infringed the patents.

The Pre-Trial Application to Amend

The general principle on amendment is that once the patentee knows that validity attacks are being made on his patent, he is fully entitled to formulate a "fallback" position by seeking amendments, conditionally or unconditionally, on the outcome of the revocation proceedings.

However, Jacob LJ held that procedurally, because the pre-trial amendment was submitted too late, it would have been unfair to allow this application as Nokia would not have had a proper opportunity to consider and formulate a validity attack on the proposed amended claims. Given the extent of the amendments, a further examination of prior art and expert reports, *etc.,* would have been required. In any event, this would have necessitated an adjournment in the proceedings that neither party wanted and, since IPCom hadn't asked for one, Jacob LJ submitted that Floyd J did not err in refusing the first amendment as he would have otherwise ruled in favour of an unfair trial.

The Post-Trial Application to Amend

As to the post-trial application, Jacob LJ applied the principles in *Nikken v Pioneer Trading* [2005] EWCA Civ 906 which state that a post-trial amendment application should only be allowed to facilitate the deletion of invalid claims from an otherwise valid patent, but in the case of a wholly invalid patent, the amendments should ordinarily be refused as this would necessitate a second trial on validity. He considered that there was no basis for relaxing the application of those principles as there was nothing exceptional about the facts to excuse IPCom's failure to submit its amendments earlier. Jacob LJ observed that IPCom knew about the attacks on their patent and had every opportunity to amend the claims so that there could have been a trial, but had not done so. He added that, following *Johnson v Gore Wood* [2002] 2 AC 1, the underlying public interest is to have finality in litigation, not to vex a party twice in the same matter and to prevent an abuse or misuse of the court process.

Virgin Atlantic Airways Ltd v Delta Airways Inc: "For" Claims Normally Construed as Meaning "Suitable For"

The Court of Appeal of England and Wales has, on an application by Delta for summary judgment, overturned Mr Justice Arnold's decision to the effect that, based on Arnold J's interpretation of the main patent claim, Virgin had no real prospect of establishing that Delta had infringed its patent for an aircraft seating system. Lord Justice Jacob disagreed with the judge's claim interpretation and stated that the claim was not limited to a seating system fitted into an aircraft. Instead, it covered a system *capable* of being so fitted.

BACKGROUND

Virgin had previously sued Contour, which manufactured seats and sold incomplete seat parts to Delta. In October 2009, the Court of Appeal held that Virgin's patent was valid and infringed by Contour. Virgin then sued Delta, claiming that, as a customer of Contour, Delta was a joint infringer with the seat manufacturer.

Subsequently, in September 2010, Virgin amended patent claims in opposition proceedings at the European Patent Office (EPO). Claims to a seat unit for a passenger seating system for an aircraft were deleted. The patent as amended contained only claims for "a passenger seating system for an aircraft".

The action against Delta as joint infringer had been stayed pending the EPO proceedings. Post amendment, Delta applied for summary judgment.

In his judgment of 30 November 2010, Mr Justice Arnold held that Virgin had no real prospect of establishing that Delta had infringed Virgin's patent. Accordingly, granting Delta's application for summary judgment, the judge dismissed Virgin's action for infringement. He held that Contour did not infringe because the main patent claim (Claim 1) required a seating system comprising a plurality of seat units assembled and arranged on an aircraft. Contour only supplied an incomplete kit of parts to Delta, which Delta assembled abroad. He further stated that, while it could be argued that manufacture in the United Kingdom of a complete kit of parts for assembling a patented device could infringe a patent, it could not be argued that the manufacture in the United Kingdom of an incomplete kit of parts subsequently exported could infringe.

DECISION

The Court noted that in classical patent law, "for" claims are normally construed as meaning "suitable for". This, in light of EPO guidance, led to the conclusion that the term "system for an aircraft" should be approached with a very strong presumption of understanding it to mean "suitable for":

"Only if one is compelled by the rest of the claim read in the light of the specification as a whole to read it as limited to a system when fitted on an aircraft should it be read as a system on an aircraft".

The Court of Appeal found no such reason for interpreting the claim as reading "system on an aircraft", and indeed, even without the presumption, was of the opinion that the skilled man, reading the claim in context, would understand it to mean "suitable for" and that the claim was not limited to a seating system fitted into an aircraft.

The Court of Appeal therefore discharged the declaration of non-infringement granted by Arnold J, allowed the appeal, and held that the case must proceed to trial.

***Virgin Atlantic Airways Ltd v Premium Aircraft Interiors UK Ltd*: Subsequent Patent Claim Amendment and Res Judicata**

Following an infringement action between the parties, the Court of Appeal had held the Claimant's patent valid and infringed and made an order for damages, an injunction and a series of undertakings. Subsequently, however, the Technical Board of Appeal of the European Patent Office (EPO) found that the claims of the patent in suit were invalid. The EPO did proceed to allow amended claims.

The Defendant applied to the Court of Appeal for a variation of that Court's earlier judgment, on the ground that the amendment of the patent (which has retrospective effect) operated to prevent the Claimant from enforcing the order.

The Claimant consented to the discharge of the injunction, acknowledging that it could no longer rely upon the injunction in the order to prevent further acts of infringement in relation to the amended claims. However, it reserved its position in respect of the other parts of the order and, in particular, the order for an inquiry as to damages.

The Court of Appeal dismissed the Defendant's application to discharge the order in relation to the inquiry for damages and for the repayment of damages already paid. Whilst there was authority for the proposition that the Court would not enforce an injunction obtained prior to the amendment as a means of preventing future infringements of the amended patent, this did not mean that an amendment also had the effect of preventing the successful patentee from enforcing the judgment for damages which had been obtained in respect of the acts of infringement in relation to the unamended patent.

The inquiry as to damages was not an attempt to enforce a new claim, but was merely the quantification of the amount payable under an already perfected judgment. It was not open to the Defendant to argue that the estoppel created by that judgment should not be enforced, given the subsequent amendment or revocation of the patent.

The Court also rejected the Defendant's submission that it should be released from the undertaking to pay damages in respect of the remaining part of a customer's order which had been the subject of a carve-out from the injunction and which remained unfulfilled at the time of the Court of Appeal's order. The enforcement of the undertaking depended not on the continued existence of the injunction, but on whether the Claimant remained entitled to damages in these proceedings for the sale and delivery of the relevant items.

EU Council Approves Enhanced Cooperation with Respect to a Unitary Patent

Enhanced cooperation is a procedure available to allow a minimum of nine EU Member States, *i.e.,* one third of the total number, to implement common measures in circumstances where unanimity cannot be reached between all States.

Negotiations with respect to establishing a Community Patent valid in all member states have ground to a standstill, due primarily to translation issues. In October 2010, a number of Member States indicated that they were considering whether they could engage in enhanced cooperation to establish a unitary patent valid between them. In December 2010, the European Commission released a proposal for a Council decision authorising enhanced cooperation, which set out the legal basis for the enhanced cooperation and the envisaged measures implementing the cooperation.

In February 2011, the European Parliament provided its consent to the proposed enhanced cooperation. On 10 March, the Council formally adopted the decision authorising enhanced cooperation.

The next stage in the enhanced cooperation process will be for the Commission to prepare and present its formal proposals for the implementation of the new unitary patent.

The current proposal is that the unitary patent should be based on the December 2009 text (Council document 16113/09). It would provide that the unitary patent should coexist with the current European and national patent systems. The unitary patent would be autonomous in nature and provide equal protection throughout the territories of the participating Member States. It could only be granted, transferred or revoked, or may lapse, in respect of those territories as a whole.

Significantly, the enhanced cooperation procedure approved by the Council relates only to the nature and effect of the unitary patent *per se*. It does not govern the forum in which such a patent is to be litigated. On 8 March 2011, the Court of Justice of the European Union (CJEU) handed down its Opinion No 1/09, in which it found that the proposed agreement on the Community Patents Court is not compatible with the provisions of the European Union Treaties. While the issues of the nature of the unitary patent and the forum in which it is litigated are legally distinct, they are linked in practical and commercial respects. It is not known whether the CJEU's Opinion with respect to the proposed Community Patents Court will affect the process or timing of finalisation of the enhanced cooperation with respect to the unitary patent.

Questions on the Interpretation of the SPC Regulation Referred to the CJEU.

In connection with *Neurim Pharmaceuticals (1991) Ltd v The Comptroller-General of Patents* [2011] EWCA Civ 228, the Court of Appeal of England and Wales has referred five questions to the Court of Justice of the European Union (CJEU) on the interpretation of Regulation 1768/92/EC (now 469/2009) – The SPC Regulation. The questions relate to the meaning of the term "product", and what inventive developments in the pharmaceutical field are entitled to protection under a Supplementary Protection Certificate (SPC).

BACKGROUND

Neurim holds a patent for the use of melatonin as a medicine for insomnia. In 2007, 15 years after this patent was applied for, Neurim was granted a marketing authorisation to sell its patented formulation. Neurim applied for an SPC on the basis of this marketing authorisation and its patent. The United Kingdom Intellectual property Office (UKIPO) denied this application on the basis of a 2001 marketing authorisation granted to Ceva Animal Health for the use of melatonin in sheep (Regulin). The UKIPO found that the marketing authorisation for Regulin was the first to place the product—melatonin—on the market.

Neurim appealed this decision and the matter came before Arnold J. He upheld the decision of the UKIPO and considered the questions raised of the SPC Regulation *acte clair*. However he considered that there was a "tenable argument to the contrary which may lead to the matter being referred to the [CJEU]" and as such gave Neurim permission to appeal.

THE OPINION OF THE COURT OF APPEAL

Nuerim argued that the basic principle is one SPC per patent, by which it is meant that there can only be one SPC for a particular patented product. As a result, the marketing authorisation referred to in Article 3(b) of the SPC Regulation is the first relevant authorisation (*i.e.,* authorisation of a product within the scope of the basic patent) to place the product on the market as a medicinal product.

No one had suggested that Neurim's claims were not novel and inventive, or that Neurim's work had not led to a beneficial medicine. The Court of Appeal was entirely supportive of Neurim's position and strongly expressed the opinion that Neurim should be entitled to SPC protection for their product:

We consider that Neurim's arguments are not only tenable: in our view they are right. Many kinds of valuable pharmaceutical research will not get the encouragement or reward they deserve if they are not. Pharmaceutical research is not confined to looking for new active compounds. New formulations of old active substances are often sought. Most are unpatentable but from time to time a real invention is made and patented.

Moreover there is much endeavour to find new uses for known active ingredients. The European Patent Convention 2000 has indeed made the patenting of inventions in this area clearer. Its effect is that a patent for a known substance or composition for use in a method of treatment is not to be regarded as old (and hence unpatentable) unless use for that method is known. It would be most unfortunate if second medical use patents could not get the benefit of an SPC.

In short, if Neurim are wrong, then the Regulation will not have achieved its key objects for large areas of pharmaceutical research: it will not be fit for purpose. Whether that is so or not is clearly a matter for the EU's highest court.

COMMENT

The Court of Appeal is clearly of the opinion that second medical use patents should be entitled to SPC protection and that to find otherwise would be both contrary to the principles that underlie the SPC Regulation and moreover would result in the Regulation being unfit for purpose.

However, despite these strong sentiments, there is no guarantee that the CJEU will follow this same path. Neurim is faced with the hurdle of the CJEU's previous decisions in *Massachusetts Institute of Technology* C-431/04 and *Pharmacia Italia SpA, formerly Pharmacia & Upjohn SpA* C-31/03 and the language of the Regulation defining the product to be protected as the active ingredient (with only one SPC per product).

That said, Advocate General Fennelly has previously acknowledged, in *Biogen Inc. v Smithkline Beecham Biologicals SA* C-181/95 that the SPC Regulation was drafted with a simple situation in mind; and so one could seek to argue that SPC protection for second medical use patents was another situation that the legislators did not envisage. Previous decisions of the CJEU have also shown that the Court is prepared to ignore express words in a Regulation (*AHP Manufacturing BV v Bureau voor de Industriële Eigendom* C-482/07) in order to make sure that the key purposes of the SPC Regulation are achieved.

Therefore, despite the possible hurdles, if the CJEU is in agreement with the Court of Appeal that the granting of SPCs to second medical use patents falls within one of the key purposes of the Regulation, the CJEU has scope to interpret the SPC Regulation to allow such protection.

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Advocate General Considers Territorial Broadcasting Restrictions Incompatible with European Law

On 3 February 2011, Advocate General Kokott delivered her Opinion on a preliminary reference to the Court of Justice of the European Union (CJEU) concerning the legality of the use of satellite decoders purchased outside the United Kingdom to show Premier League football matches in public houses in the United Kingdom.

The AG's Opinion in joined cases *Football Association Premier League Ltd & Ors v QC Leisure & Ors* C-403/08 and *Karen Murphy v Media Protection Services Ltd* C-429/08, which is not binding on the Court, concluded that the territorial exclusive licensing system in question was incompatible with the free movement of services under the Treaty on the Functioning of the European Union. The purchase of a Greek decoder card was payment for the broadcast service, and the purchaser therefore is free under European Law to enjoy that service throughout the European Union. On the facts, the Advocate General could find no justification to restrict this freedom, arguing that territoriality was used purely to optimise value from the exploitation of the rights in question at the expense of the principle of a single European market.

This conclusion will be of concern to right holders currently exploiting their rights on a territorial basis. The AG's position is likely to have a material adverse impact of the value of rights, where such rights must be sold as a single European package going forward. However, the AG noted that circumstances may exist where partitioning the market may continue to be justified. If followed by the CJEU, the Opinion delivered by the AG might have a huge impact on the wider broadcasting sector, including in relation to film licensing as well as for premium sports content.

The CJEU is expected to hand down its ruling later this year.

COMMERCIAL

New Rules on Late Payment of Invoices

Tough measures have been implemented with the aim of reducing cash-flow problems responsible for putting one in four EU small and medium sized enterprises (SMEs) out of business. The measures were made EU law on 24 January 2011 with the adoption of the Directive on combating late payment in commercial transactions (2011/7/EU). This replaces the current Late Payments Directive (2000/35/EC).

Many payments in commercial transactions between businesses or between businesses and public authorities are late. The European Union believes this is why 25 per cent of SMEs fail. Under the new Directive, unless the purchaser is not responsible for the delay in payment, a supplier can charge interest for late payment, without sending a reminder, if, having fulfilled its contractual obligations, it has not received the amount due on time.

The supplier will be entitled to the interest for late payment from the day following the date, or the end of the period, for payment as fixed in the contract. The European Commission will publish on the internet the statutory rate of interest for late payment. Essentially this will be the reference rate of the relevant Central Bank plus 8 per cent; the reference rate in the United Kingdom is the Bank of England base rate. If the date or period for payment is not fixed in the contract, the supplier is entitled to interest after 30 days following the date of receipt of the invoice. If the date of the receipt of the invoice is uncertain or the purchaser receives the invoice earlier than the goods or services, interest will run from 30 days after the date of receipt of the goods or performance of the services.

The Directive allows for periods of acceptance or verification of goods or services according to which their conformity with the contract can be ascertained. However, it requires that the maximum duration of a procedure of acceptance or verification should not exceed 30 days from the date of receipt of the goods or services, unless otherwise expressly agreed in the contract and provided it is not grossly unfair to the supplier (which depends, among other things, on the nature of the product or the service).

The Directive stipulates that in transactions between undertakings, the period for payment fixed in a contract must not exceed 60 days, unless otherwise expressly agreed in the contract and provided it is not grossly unfair to the supplier. The Directive allows Member States to extend the payment period up to a maximum of 60 days for public hospitals and health care institutions and any public authority that carries out economic activities of an industrial or a commercial nature by offering goods or services on the open market.

When interest becomes payable, the supplier is entitled to a minimum fixed sum of €40 as compensation for recovery costs. Suppliers are also entitled to reimbursement of other expenses incurred due to the purchaser's late payment, *i.e.,* lawyer or debt collection agency fees. Member States will be allowed to impose fixed sums for compensation of recovery costs that are higher. The Directive does not prevent payments by instalments or staggered payments, although each instalment or payment will be subject to the same rules under the Directive.

Article 7 of the Directive provides that a contractual term or a practice relating to the date or period for payment, the rate of interest for late payment, or the compensation for recovery costs is either unenforceable or gives rise to a claim for damages if it is grossly unfair to the supplier. Whether a contractual term or practice is grossly unfair will depend on all the circumstances of the case but guiding principles are set out in the Directive. The recitals to the Directive recognise that extensive payment periods may in some circumstances be appropriate, for example when undertakings wish to grant trade credit to their customers. Nonetheless, any contractual term that excludes interest or recovery costs for late payment will always be considered grossly unfair.

European Contract Law: United Kingdom and European Union on Collision Course

On 1 July 2010, the European Commission published its Green Paper on European contract law setting out possible practical and legislative actions designed to bring more coherence to contract law across the European Union. The Green Paper considered what should be the legal nature of any instrument of European contract law and set out options that range from a non-binding instrument aimed at improving the consistency and quality of EU legislation, to a binding instrument that would set out an alternative to the existing plurality of national contract law regimes by providing a single set of contract rules. In the United Kingdom, the Ministry of Justice (MoJ) issued a call for evidence on the Commission's proposals. The call for evidence closed on 26 November 2010 and responses were published on 10 February 2011.

The response of the MoJ amounts to an almost wholesale dismissal of the Commission's proposals on the basis that they are inappropriate and unnecessary. As such, the MoJ suggests, they give rise to "serious doubts about the EU's competence under the Treaty to pursue any of them".

The MoJ does not feel there is a need for change. It notes that the Green Paper suggests that the current divergence in national contract laws may deter parties from trading across borders, but the Ministry found evidence that pointed to the market operating "very effectively indeed".

The MoJ notes that many respondents consider the choice of contract law of little relative importance in determining whether to trade across borders. Instead, most respondents cited other issues as far more important, such as language, currency, shipping costs, local taxation schemes, brand familiarity, concern about lack of understanding of redress and enforcement measures, security for payment, after sales services, *etc,*.

As such, in the view of the MoJ, a legislative response does not seem justified on the available evidence and other practical responses are worth considering instead. For example, there is a need to improve the availability of the information about national laws in other languages. Another practical approach would be to provide model contracts in different languages and/or in specific areas of business. These, says the Ministry, may be more effective in practice than the legislative approaches canvassed in the Green Paper.

COMMENT

The United Kingdom's formal position on the radical proposals is that there is no demonstrable need established for any of the options beyond option 1: publication of the results of the Expert Group, and option 2: the creation of an official "toolbox" for the legislator. The Ministry does highlight and comment extensively upon option 4—the "29th regime", which is based specifically on a Regulation setting up an Optional Instrument of European Contract Law—on the basis that this is what the Commission has indicated it favours and intends to pursue. The MoJ rejects it on the basis that it is "premature given the paucity of evidence of a problem and the lack of any clarity or detail as to what substance such a Regulation might actually contain. The UK position stands in stark contrast to that expressed in a European Parliament draft report published on 25 January 2011 which accepts that a case for legislative intervention exists and that a 29th regime is indeed the way forward.

Proposed Consumer Rights Directive: Conflicting Texts Adopted

On 24 January 2011, the EU Council of Ministers adopted a common approach to the Consumer Rights Directive that would see the scope of the Directive narrowed to cover distance selling and doorstep selling and would drop the original proposal for provisions on unfair terms, conformity with contract and consumer guarantees. The approach would, however, maintain full harmonisation in respect of the conditions on consumer information and the right of withdrawal in distance and off-premises contracts between traders and consumers.

The final version of the Directive remains in the balance, however, as the Council's approach is up against a conflicting text adopted on 1 February by the European Parliament's Committee on the Internal Market and Consumer Protection (IMCO). Indeed, there are also divisions in IMCO itself over the scope of the Directive. The Parliament will vote on the proposals in plenary in late March but, amid accusations that consumers are being sold short, the signs are that the controversial legislation is heading for second reading.

The statement of full harmonisation (Article 4) from the original draft has been replaced with a statement that Member States may not maintain or introduce provisions diverging from those laid down in the Directive, including more or less stringent provisions to ensure a different level of consumer protection "unless otherwise provided in this Directive". One such exception is provided in Article 4a(2), which provides that Member States may introduce a *de minimis* threshold of €60 or less and may disapply the Directive to off-premises contracts below this value (the proposal already provides that off-premises contracts under €40 are *de minimis*). In general, the new proposal fully harmonises conditions on consumer information and the right of withdrawal in distance and off-premises contracts between traders and consumers (providing a withdrawal period of 14 days, increased from seven or eight days (in most circumstances) in the existing legislation), but otherwise does not prevent traders from offering consumers contractual arrangements that go beyond the protection provided in the Directive.

There have been rumours of a first reading agreement between the Parliament and the Council but whilst there is common ground in a number of areas, such is the level of divergence in others that this is by no means a foregone conclusion. The conflicting texts will now proceed to a vote in plenary, which is due to take place on 24 March. The deadline for proposals for written amendments was 2 March, but with a suitable majority, members of the European Parliament could propose amendments right up until the day of the vote.

James Robinson v P E Jones (Contractors) Ltd: Concurrent Contractual Liability and Tortious Liability

On the difficult question of whether tortious liability can arise concurrently with a contractual duty of care where loss is purely economic, the Court of Appeal of England and Wales has, in respect of construction contracts, reconciled the current conflicting strands of authorities and says that it should now be regarded as settled law that a builder or vendor of a building does not, by reason of his contract to construct or complete a building, automatically assume any liability in the tort of negligence in relation to economic loss arising from defects in the building. In other situations, however, such as where the parties are in a professional relationship, tortious liability may still arise concurrently with contractual liability in respect of economic loss. In *James Robinson v P E Jones (Contractors) Ltd* [2011] EWCA Civ 9, the Court held that PE Jones (Contractors) Ltd did not owe James Robinson a duty of care in tort in respect of building defects that had arisen over 12 years after completion. To impose such liability would make the law of contract wholly subordinate to the law of tort, the Court said, and would, in the circumstances of this case, have been inconsistent with the terms of the contract, which were clear and simple and which allocated risk sensibly between the parties. Further, the contractual clauses that sought expressly to limit liability in tort by PE Jones were effective as they satisfied the requirement of reasonableness under the Unfair Contract Terms Act 1977.

It is not clear from the judgment what could otherwise have amounted to an "assumption of responsibility" on the part of PE Jones so as to render it liable in tort. However, even if the Court had found that PE Jones did, in fact, owe Mr Robinson a duty of care and was liable in tort, such liability had been expressly excluded (and had been found to be reasonable) in any event. What is clear, however, is that there is no automatic assumption of concurrent liability in tort for pure economic loss in a building contract. Further, it will depend on the facts and circumstances of the case and the relationship between the parties as to whether there is an "assumption of responsibility" such that liability in tort for pure economic loss can be established. It is suggested that professional relationships involving the giving of advice on which the other party relies might amount to there being an "assumption of responsibility", but other than that, no further clarification was provided.

McCain Foods GB Ltd v Eco-Tec (Europe) Ltd: Direct Loss and Consequential Loss

In *McCain Foods GB Ltd v Eco-Tec (Europe) Ltd* [2011] EWHC 66 (TCC), judgment was given in favour of McCain Foods on a claim for breach of contract against the supplier of a biogas treatment system. The court held that the supplier could not rely on a clause in the contract excluding liability for indirect and consequential losses, and awarded McCain all losses claimed as "arising naturally according to the ordinary course of things from the breach of contract itself".

The claim related to McCain's purchase of a BGPur system from Eco-Tec (Europe) Ltd. The system was to remove hydrogen sulphide from biogas produced in McCain's waste water treatment processes. The clean biogas was to be used to generate electricity for the plant. It was alleged that this entitled McCain to be an Ofgem accredited generator of renewable electricity within the United Kingdom and to obtain Renewables Obligation Certificates (ROCs). McCain argued that the system proved impossible to commission and that the asset purchase agreement had been breached.

The court found Eco-Tec in breach of contract. On quantum, the parties agreed that McCain was entitled to the cost of replacement equipment. The parties also agreed as to the quantum of loss for additional items: utility costs; loss revenue from not obtaining the ROCs; the expense of contractors, site managers and health and safety personnel; attempted mitigation; auxiliary equipment and civil works; employee time; third party experts and laboratory testing; and purchase of auxiliary equipment.

Eco-Tec, however, contended that all items except for the replacement equipment were excluded due to a limitation clause in the asset purchase agreement purporting to exclude "indirect, special, incidental and consequential damages".

Eco-Tec argued that these additional items fell within that clause. McCain, on the other hand, argued that the sums claimed were not consequential damages because the Court of Appeal had determined that consequential loss was to be confined to loss or damage within the second limb of *Hadley v Baxendale* [1854] 9 EX 341 (*i.e.*, losses arising from "special cases" known to the breaching party), whereas these items fell within the first limb (*i.e.*, losses "arising naturally … according to the usual course of things").

The court cited case law that showed that (1) consequential loss was confined to loss or damage within the second limb of *Hadley v Baxendale*; (2) loss of profit was held to be a direct loss, and (3) consequential damages did not include loss of profits but rather that these were, by definition, direct losses.

In this case, the court held the costs of repair, replacement, mitigation and associated losses to be direct losses. Eco-Tec was therefore liable for the costs of contractors, site managers and health and safety personnel, attempted mitigation, auxiliary equipment and civil works, employee time, third party experts and laboratory testing and the purchase of auxiliary equipment from Eco-Tec. In addition, the cost of electricity (which would have been generated by the system had it been commissioned) was held to be a direct loss. In relation to ROCs, the use of the system would have generated revenue and that loss of revenue was the natural or immediate and thus direct loss caused by the inability to commission the system.

On the basis, all items of loss were recoverable and, in the court's view, none of the sums claimed unreasonable. Damages were assessed at £1,693,183.

SPORT AND SPORTS RIGHTS

FIFA and UEFA v Commission: UK's Designation of the World Cup and European Championships as Listed Events Held Compatible with EU Law.

BACKGROUND

The Television without Frontiers Directive (89/552/EEC as amended by 2007/65/EC)—now renamed as and amended by the Audiovisual Media Services Directive (2007/65/EC)—lays down the framework conditions in which the public may be guaranteed free access to the broadcast of events of major importance to society. Article 3a of the Directive enables each Member State to draw up a list of such events.

As required by Article 3a, the Belgium and UK lists were duly notified to the Commission, which found that they were compatible with EU law. International Federation of Association Football (FIFA) and the Union of European Football Associations (UEFA) challenged those decisions before the General Court of the European Union (GCEU) on the basis that not all the matches in the tournaments could be regarded as events of major importance for the UK and Belgian public respectively.

DECISION

The GCEU held that the Commission did not err in finding that the categorisation by the United Kingdom of all World Cup and European Championships matches and Belgium's categorisation of all World Cup matches as "events of major importance" for their societies are compatible with European Union law. Consequently, FIFA's and UEFA's actions were dismissed.

The GCEU considered that competitions themselves could be regarded as single events rather than a series of individual events insofar as participation of national teams in “prime” and “gala” matches, such as the final, might depend on the results of “non-prime” and “non-gala” matches. As such, it could not be specified at the time when the national lists are drawn up which matches would actually be decisive for a given national team.

COMMENT

The UK Government has deferred any decision on whether to maintain, revise or abolish the listing of events until after the end of the Digital Switchover process. That of course means that the current list, drawn up in 1998, will remain in force until 2013 at least.

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