

September, 2010

IN THIS ISSUE:

Welcome	1
Updates	1
Standards and Patents	2
IP Enforcement	3
Software	5
Contacts	6

WELCOME

Welcome to the third issue of 'IP Wire'.

IP Wire is an occasional bulletin for the ICT sector from Fasken Martineau, covering developments in IP and related competition law. We aim to keep you briefed on issues such as 'essential patents' and technical standards, patent trolls, border detention and many other topics.

Want us to cover a particular topic in IP Wire? Please email us and let us know.

UPDATES

European and EU Patents Court ("EEUPC") - Advocates General's Negative Opinion

We have previously reported on proposals for the EEUPC pan-European patent litigation system and EU Patent. Following recent publication of the opinion of the Advocates-General (AGs) there is now significant uncertainty about these proposals. The AGs have concluded that the proposed agreement for the EEUPC is incompatible with the EU treaties. The agreement for the EEUPC needs to comply with the Treaty on the Functioning of the European Union (TFEU) and the other EU treaties.

A reference was therefore made to the European Court of Justice (ECJ) seeking confirmation of the compatibility of the proposed agreement with the treaties.

On 2 July 2010, the AGs issued a statement of their position, which was negative. It is important to note that this is merely advisory – the ECJ's decision is still awaited and it is quite possible for the ECJ to ignore the AGs.

The AGs gave four reasons for considering the proposed agreement to be incompatible and, for each of these, suggested areas in which the draft agreement could be modified. These are set out in the table below, with our comments. European patent judges will debate the position further at the annual Venice forum this autumn, and are likely to throw their weight behind criticism of the AGs' opinion. If the ECJ does follow the AGs then the proposals are not necessarily dead, but are at least likely to be seriously delayed.

AGs' Concern	Possible Solutions/Comment
As currently drafted, there is a risk that decisions of the EEUPC will not take full account of EU law, and the draft agreement does not mention the pre-eminence of EU law. The guarantees in the draft agreement to ensure the full application and observance of EU law are considered insufficient.	According to the AGs, the agreement would need to be amended to state that in matters to which EU law is relevant, the EEUPC should have regard to, and follow, all aspects of EU law (including ECJ case law). In addition the ranking of EU law relative to the other laws to which the EEUPC should have regard should be established without ambiguity in the agreement. This does not seem controversial, although those behind the EEUPC proposals are desperate to minimise the role of the ECJ in patent matters given that its impact on EU trade mark law has been negative, with confusing judgments and long delays.

<p>There is no mechanism in the proposed agreement guaranteeing the EEUPC's obligation to refer questions of EU law to the ECJ.</p>	<p>The AGs suggest that judgments of the EEUPC could be appealed to the ECJ or subjected to a re-examination mechanism. This will be seen as highly unattractive to many practitioners.</p>
<p>Grant of the new EU Patents will be by the EPO. Under this system, there will be a right of appeal to the EPO internal boards of appeal, but no right of appeal to an independent court that is required to observe EU law and refer preliminary questions to the ECJ where appropriate. In the AGs' opinion, therefore, the proposed agreement does not satisfy the requirements of ensuring effective judicial control over the granting of EU Patents and a correct and uniform application of EU law.</p>	<p>The AGs suggest extending the competency of the EEUPC to include administrative review of EPO decisions concerning the EU Patent, or creation of an administrative patent court which could in turn refer issues to the ECJ. This seems likely to introduce substantial delay in EPO procedure concerning the EU Patent, and again raises the spectre of undesirable ECJ interference.</p>
<p>Where a dispute is brought before the central division of the EEUPC, the language of the proceedings would be that of the patent – i.e. German, French or English. This means that a company may be required to litigate in a language which is neither the language of its country of origin or of a country where it carries out commercial activities. The AGs consider that this contradicts the right of defence which essentially requires that defendants should be in a position to comment on evidence presented against them. They will not be in a position to do this if they do not understand the language of the proceedings.</p>	<p>A provision could be inserted into the draft agreement allowing the central division to depart from the general rule where necessary in the interests of justice. Alternatively a provision allowing the defendant to obtain translations of procedural documents could be inserted (although in practice this could be difficult and time-consuming to carry out, and would certainly be costly).</p>

***Nokia v. IPCOM* - Further Extension of the Possible Declarations Obtainable From the English Courts**

The English proceedings between Nokia and IPCOM, on which we have previously reported, appear to have settled. However, in the course of settlement a further interesting point has arisen, concerning the types of declaration that the English court is prepared to grant.

In relation to technical standards, such as GSM, court declarations that a patent is or is not 'essential' to the standard are already known in England. Now the court has shown itself willing also to make a declaration (in this case, by consent) that it is **not possible to implement the standard in a way that infringes the patent**.

This provides a potentially useful additional route in appropriate cases since, unlike a declaration of non-essentiality, this declaration eliminates the possibility that a standard-compliant device of any kind requires a licence under the patent.

The declaration in this case was made 'as between the parties' so that it did not restrict third parties.

STANDARDS AND PATENTS

Misusing Patent Misuse: *Princo Corp v. ITC and U.S. Philips Corp*

The United States Court of Appeals for the Federal Circuit recently submitted its much-anticipated decision in *Princo Corporation v. International Trade Commission*. An 8-2 majority held that independent, anticompetitive agreements restraining alternative technologies do not fall within the scope of the doctrine of patent misuse; however intellectual property owners engaging in this conduct would still remain open to antitrust scrutiny. Although some businesses who engage in research joint ventures or create patent pools will focus on the positive implications of this decision, the Princo saga should nevertheless serve as a cautionary tale to patent owners who wish to include in a patent pool patents that are not essential to the practice of a standard.

At issue in the Princo decision is the technology developed by Philips and Sony used in creating CD-R and CD-RW discs; specifically, alternative methods of encoding location information on a recordable CD. Philips was responsible for creating an analog method (Raaymakers patents) and Sony was responsible for a digital solution (Lagadec patents).

Philips and Sony decided to adopt the superior Raaymakers method (allegedly suppressing the Lagadec method) for inclusion in the 'Orange Book' standard for disc production but both patents were included in the licensing packages made available to producers via a patent pool.

Princo, an Orange Book licensee, ceased paying royalties and argued that the licensing of the Lagadec patents exclusively via the Orange Book licensing package amounted effectively to suppression of the alternative Lagadec technology, which in turn constituted patent misuse.

The court reiterated that patent misuse is "grounded in the policy-based desire to prevent a patentee from using the patent to obtain market benefit beyond that which inheres in the statutory patent right." As clarification, the court opined that the doctrine of patent misuse was not available to a presumptive infringer solely based on some alleged wrongful commercial conduct, even conduct having potential anticompetitive effects. "While proof of an antitrust violation shows that the patentee has committed wrongful conduct having anticompetitive effects, that does not establish misuse of the patents in suit unless the conduct in question restricts the use of that patent and does so in one of the specific ways that have been held to be outside the otherwise broad scope of the patent grant." According to this holding, while an agreement may be anticompetitive in nature, or commercially wrong, it does not follow that it constitutes patent misuse as defined by U.S. courts.

In this case, the judges found no misuse. The court found that "Philips is not imposing restrictive conditions on the use of the Raaymakers patents to enlarge the physical or temporal scope of those patents." In other words, "Philips was not engaging in "patent leverage, i.e., the use of the patent power to impose overbroad conditions on the use of the patent in suit that are not within the reach of the monopoly granted by the Government."

The alleged agreement between Philips and Sony to suppress the Lagadec patent was collateral to the Orange Book licensing agreement, thus falling outside of the narrowly defined scope of patent misuse. In the court's words: "[the alleged agreement] does not leverage the power of a patent to exact concessions from a licensee that are not fairly within the ambit of the patent right" and further, "[...] in this case the assertion of misuse arises not from the terms of the license itself but rather from an alleged collateral agreement between Sony and Philips." Princo never alleged any overbearing or unreasonable licensing terms stemming from the Orange Book licensing agreement, but rather from an purported agreement between Sony and Philips. Therefore, the doctrine of patent misuse did not prevent Philips from enforcing its patent rights.

The Court also held that under antitrust guiding principles, any alleged agreement to suppress the Lagadec technology should be analyzed under the rule of reason which imposes the burden of proving the actual anticompetitive effects on Princo. The court alluded to the many procompetitive benefits of research joint ventures as being sufficient to preclude collusion in many cases. Prior to this decision it was unclear whether a party had to show an actual effect on competition or merely a hypothetical one. The court's conformity to the rule of reason should be of particular significance and relief to many patent pool participants.

With all this in mind, it should be noted that the strongly worded dissent may leave the door open to the Supreme Court of the United States hearing this case.

European Commission Survey on Patents and Standards - *Deadline 8 October 2010*

The Fraunhofer-Society has been tasked by the European Commission with coordinating a 'Study on the Interplay Between Standards and Intellectual Property Rights', which will contribute to EU policy-making in this area.

A survey has been sent to IP owners and SSOs identified as having an interest in this area. In case you have not been contacted but wish to contribute, the survey is online here (<http://projects.inno.tu-berlin.de/ipr/eso/survey.php>) and the deadline for responses is 8 October 2010.

IP ENFORCEMENT

EU Customs Detention in the ICT Sector

In our January 2010 edition, we examined the use of EU Customs detention in the ICT sector, including statistics from 2008 as reported by the European Commission Taxation and Customs Union. The report and analysis of 2009 detentions has recently been issued, and contains a more detailed breakdown for the ICT sector than in previous years.

Products in the ICT sector comprised a significant proportion of the total number of detention cases in 2009. 5% of detention cases in 2009 involved mobile phones, with a further 2% of cases relating to parts and technical accessories for mobile phones. Other electrical, electronic and computer equipment (e.g. memory cards, computer hardware, AV equipment and ink cartridges) accounted for 4% of cases, and games, including electronic game consoles, accounted for a further 2%. Interestingly, mobile phone accessories are noted as one of the categories of goods most likely to be brought in by individual passengers (in commercial quantities).

The total number of applications by right holders in all sectors continued to increase in 2009, reaching almost 15,000, indicating that right holders are becoming increasingly aware of the utility of the procedure in enforcing their IPRs. The number of cases of detention by Customs, however, decreased from just over 49 million in 2008 to approximately 43.5 million in 2009, and the number of individual

articles detained decreased by about 61 million to almost 118 million (including a drop of 44% in items of electrical equipment detained). The reduction in the number of detentions was attributed by the Commission to the global economic downturn – exports reportedly fell by 16%, while imports fell by 23% – and in that context the Commission considered that the number of detentions remained at a relatively high level. Also, the previous year's results were influenced by unusually high detentions of CDs and DVDs which did not occur in 2009.

China continued to be the main source of infringing goods entering the EU. 64% of all detentions across all product sectors involved goods originating from China (up from 54% the year before). For products in the ICT sector, China was also the main source (for example, 81% of detained electrical/electronic and computer equipment originated in China), with Hong Kong the second most common source for most kinds of ICT equipment. Taiwan and UAE also featured strongly as a source of CDs, DVDs and games cartridges.

In terms of the breakdown of goods seized, and the related IPRs, the largest categories of products detained on the basis of patent rights were unrecorded CD/DVDs (70%) and electronic equipment such as MP3 or DVD players (7%). For copyright the main products were CD/DVDs, and for design rights mobile phone accessories were a notable category. As usual, however, the vast majority – 90% – of articles were detained on trade mark grounds.

For the first time, a breakdown of outcomes is also provided this year. Given the continued dominance of trade mark rights as the basis for detentions, it is not surprising that in almost 82% of detentions the goods were either destroyed under the simplified procedure or a court case was initiated to determine infringement. In a further 14% of cases the matter was settled out of court. A small percentage resulted in release because the goods were genuine or the right holder took no action; in this category, ink cartridges and toners featured among the highest numbers, presumably because many detained products turned out to be parallel imports (where the EU detention regime does not apply).

Euro-Defences in Parallel Import Disputes: *Oracle America, Inc v. M-TechData Limited*

The English Court of Appeal has recently refused to give summary judgment for Oracle in a parallel import dispute concerning disk drives, even though the drives were imported from outside the EEA bearing Oracle trade marks without consent. M-Tech raised a number of 'Euro-defences' arising from Oracle's international business practices. The case was remitted for trial, and it is likely that questions about the meaning of the EU Trade Marks Directive will be referred to the European Court of Justice after the trial.

M-Tech, a reseller of used computer hardware, imported 64 genuine Oracle branded disk drives into the UK from the US. Because the goods originated outside the EEA, there was no question of Oracle's trade mark rights having been exhausted, and it sued for infringement. However, M-Tech complained that the resale market was adversely affected by the inability of resellers to determine whether goods had first been placed on the market in the EEA (even if they had subsequently left the EEA) so that they could be freely re-sold in the EEA. According to M-Tech, Oracle could publish details (eg a serial mark tracker) enabling resellers to identify which goods have been first placed on the market in the EEA, but chooses not to in order to make trade in such goods by resellers as difficult as possible, whilst pursuing infringers aggressively. They also complained that Oracle restricts its distributors and resellers to using the official Oracle supply network, in detriment to free competition in the market. M-Tech asserted that, as a result, Oracle had breached EU law on the free movement of goods and the prohibition on anti-competitive agreements, and that Oracle was abusing the rights conferred on trade mark owners by the EU Trade Marks Directive.

The judge at first instance had given summary judgment for Oracle, rejecting the suggestion that the exclusive rights of a trade mark proprietor are subject to limitations where the assertion of the mark would be liable to partition the market. He also agreed with Oracle that even if their distribution agreements were anti-competitive, this had insufficient connection with the enforcement of its marks against M-Tech.

On appeal, it was argued by M-Tech that the rights conferred on trade mark proprietors must be read consistently with relevant principles of EU competition law and that the Trade Marks Directive is not a self-contained code. Oracle's position was that the goods were clearly first marketed outside the EEA and that was that.

The Court of Appeal were persuaded that M-Tech had a real prospect of succeeding at trial, since the European case law on the subject was undecided, and on the facts alleged by M-Tech there was an overall scheme for excluding secondary traders such as M-Tech from the market. This does not mean that M-Tech's arguments were upheld, but merely that they were found arguable and therefore summary judgment should not have been granted.

Because the European law was found to be ambiguous, the Court of Appeal indicated that the trial judge would have strong grounds for referring issues to the European Court of Justice after the trial. We doubt that M-Tech's arguments are likely to succeed in the long run as a defence to trade mark infringement, even if they are able to establish the facts behind the allegations. However, the case shows that the Euro-defence is not dead, and can be a useful tactic in cases where competition in the market has important financial and economic implications.

SOFTWARE

Software Copyright and Interoperability: Important Reference to European Court of Justice in *SAS Institute Inc. v. World Programming Limited*

The European Court of Justice will be asked to decide key aspects of European software copyright law, following a recent judgment of the English High Court. This examined fundamental issues of law affecting development of interoperable software by competitors, and the English court was largely in favour of allowing the competitor's activities in this case. At the heart of this dispute is the often-cited distinction between the protection of ideas and their expression, set against the wording of various EU directives.

The dispute concerned an analytical software system, known as the SAS System, developed by the SAS Institute. This allows users to write programs in the SAS Language in order to manipulate data. In order to allow SAS customers to migrate to competitor software, World Programming Limited (WPL) developed software called World Programming System (or WPS) that could execute applications written in the SAS Language. In developing WPS, WPL emulated the SAS System's functionality, so that the customers' applications executed in the same manner when run on the SAS System or on WPS. WPL did not have access to the source code of the SAS components, nor did they copy its structural design. However, they did make use of SAS manuals and some SAS educational software to create WPS.

SAS claimed that WPL had infringed its copyright and breached licence terms by:

- copying the SAS System manuals when creating WPS (so as allegedly to infringe copyright in both the manuals and the SAS software) as well as when producing WPS manuals;
- using an educational version of the SAS System in contravention of the licence terms.

However, according to earlier case law interpreting the EU directives, it is not an infringement of copyright in a computer program merely to replicate its functions without copying its source code or design. For similar reasons, the judge felt that it is not an infringement of copyright in manuals to reproduce the described functions in software.

Nor does copyright in computer programs protect programming languages or (provided the source code is not copied) interfaces, according to the judge and previous caselaw. WPL had replicated various elements of the SAS programming language and SAS interfaces, including SAS data file formats. For example, in relation to file formats, by examining the operation of the SAS System WPL was able to understand certain data file formats so as to write code that reads and writes data files in that format. In addition the WPS parser reproduced SAS keywords comprising elements of the SAS Language. The judge felt that there was no protection for these elements.

Despite reaching the above conclusions, the judge did not feel that the meaning of the applicable EU Directives was clear and free from doubt on the above issues and he therefore made a reference to the ECJ instead of making a final determination. Relevant wording in the EU Software Directive of 1991, for example, was felt to be ambiguous.

As to the use of the educational software, Article 5(3) of the Software Directive provides for an exception to software copyright protection, in respect of observation, study and testing, provided they are done while carrying out licensed acts. WPL had used a licensed copy of SAS educational software beyond its licence terms, by permitting multiple users and by using it to help them create WPS. But the judge felt that this was 'observation, study and testing' and that Article 5(3) rendered the licence restrictions null and void to the extent that they prohibited such acts. This again, however, is an area on which he considered ECJ guidance would be useful as a result of ambiguities in Article 5(3).

Finally, there was WPL's copying of the SAS manuals to produce their own manuals. This was found to have been indirect: whilst not directly copied, the copying arose from the authors' pre-existing familiarity with the SAS manuals. However, indirect copying is still copying. This element of the claim concerned more straightforward copyright in respect of a literary work, rather than a computer program, and was successful. As WPL had substantially reproduced the language of the SAS manuals, the judge held this to be an infringement. In respect of the WPS "quick reference" guides, however, which simply used functionality headings to inform customers about which elements of SAS Language were supported, he held that there was no underlying SAS copyright work. He also noted that these guides could also have constituted lawful 'fair dealing' for purposes of 'review', if they had contained acknowledgement of their source. This part of the judgment was not the subject of a reference to the ECJ.

A remarkable feature of this case is that it highlights uncertainties in the meaning of EU laws that have been in place for many years without ECJ guidance. However, the ECJ is not known for always making things clearer.

INTELLECTUAL PROPERTY NEWSLETTER

IP Wire: IP News & Analysis
for the ICT Sector



CONTACTS

VANCOUVER

Lesley Morrison

+1 604 361 4750

lmorisson@fasken.com

TORONTO

Huy Do

+1 416 868 3505

hdo@fasken.com

MONTRÉAL

Jean-Nicolas Delage

+1 514 397 5234

jndelage@fasken.com

LONDON

Jeremy Morton

+44 207 917 8526

jmorton@fasken.co.uk

Armand Benitah

+1 416 868 3470

abenitah@fasken.com

Alexandre Abecassis

+1 514 397 4387

aabecassis@fasken.com

Stuart Richards

+44 207 917 8577

srichards@fasken.co.uk

This publication is intended to provide information to clients on recent developments in provincial, national and international law. Articles in this newsletter are not legal opinions and readers should not act on the basis of these articles without first consulting a lawyer who will provide analysis and advice on a specific matter. Fasken Martineau DuMoulin LLP is a limited liability partnership and includes law corporations.

© 2010 Fasken Martineau, 17 Hanover Square, London, W1S 1HU