

United Kingdom

Selected UK IP highlights for 2013

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During 2013 the United Kingdom saw significant developments in IP-related law. As well as the new Patent Box tax regime taking effect and the IP Bill beginning its progress through Parliament, the courts issued a number of key decisions, covering the IP spectrum from software patents to the life sciences sector. Developments in trademark law included new guidance issued by the courts on the use of survey evidence at trial.

Tax reductions: the Patent Box

A reduced corporation tax rate has come into effect for profits derived from patented inventions and made on or after April 1 2013. The rate, which is being phased in to achieve 10% in 2017, is applicable where a company is the owner or exclusive licensee of a patent granted by the European Patent Office (EPO) or specific national patent offices such as the UK Intellectual Property Office (UKIPO). However, due to concerns about invalid patents, a consultation by the UKIPO resulted in the government dropping the idea of a 'superfast' patent application process; such patents might have assisted companies in accessing the new tax regime earlier. Nevertheless, the tax reduction can be backdated to six years before grant of a relevant patent. Furthermore, companies are increasingly adjusting filing strategies for faster grant in order to access Patent Box benefits earlier – for example:

- focusing an application narrowly on a product to be sold;
- using the UKIPO Green Channel for environmentally friendly technology; or

- using the Patent Prosecution Highway for international applications in the UK national phase.

The Patent Box regime has been both praised and criticised since its inception. Some of the most high-profile criticism in 2013 came from German Finance Minister Wolfgang Schaeuble and separately from the European Commission, although several other EU member states already have similar IP-related tax regimes in place.

IP Bill

The IP Bill is progressing through Parliament, paving the way for measures aimed at reducing the risk of investing in IP development and allowing more cost-efficient IP registration and enforcement, including the following:

- a unitary patent effective over most of the European Union, including the United Kingdom, and enforced by a new pan-European court system, currently expected to come into operation in early 2015. The unitary patent system aims to reduce costs of patent litigation in the European Union and stimulate innovation;
- UK membership of the Hague Union, allowing an applicant to file a single registered design application for a number of states. At present, the union comprises 60 members, including the European Union, and major jurisdictions such as the United States, China, Japan and South Korea have indicated their intention to accede. Cost efficiencies are expected on an international level. On a more local level, a lower-cost route to design protection in a number of EU countries including the United Kingdom is expected, in comparison to the existing option of an EU application with wider coverage;

- clarification of ownership of UK unregistered design rights (UDRs) and UK registered design rights (RDRs). The default owner of a commissioned design will become the designer rather than the commissioner. UK law will be brought into line with EU design law and UK copyright law. This provision will not affect the existing default ownership in the United Kingdom by an employer where a design is created by an employee;
 - criminalisation of deliberate copying, without permission, of a UK or Community RDR in the course of business. The proposed penalties include a fine and/or a prison sentence of up to 10 years;
 - a validity and infringement opinion service provided by the UKIPO for RDRs, similar to that presently offered for patents. The new service will further allow the UKIPO to revoke a design found invalid in such an opinion, and is intended to assist in resolving RDR disputes without the need for litigation; and
 - clarification of the scope and geographical extent of prior art citeable against a UDR. This provision aims to reduce the risk of investing in industrial product design.
- were applied by the High Court in April 2013 in *Nestec v Dualit* relating to capsules for the Nespresso coffee machine:
- Whether replacing is ‘making’ is a question of fact and degree.
 - The concepts of repair and making may overlap, but it must be considered whether the part being replaced is a subsidiary part of the patented article so that its replacement does not amount to making the article.
 - Would one expect to replace that part during the lifecycle of the patented article – did it have a much shorter life expectancy than the remainder and is it easily replaceable?
 - Does the part embody the inventive concept of the patent or is the part integrally connected to the patented article so that the replacement requires substantial demolition?

In view of the nuances of the case, manufacturers and users of spare parts must exercise caution where a patented product is involved.

Right to damages: The Supreme Court overturned the century-old English legal principle that patent holders have a right to damages for patent infringement following a UK court award, notwithstanding a later amendment (in this case by the EPO) which changes the scope of the patent such that infringement would never have been found. In *Virgin Atlantic v Zodiac* the Supreme Court considered that earlier authorities had been decided in error, since a patentee should not be able to recover damages based on an invalid patent merely by lucky timing in various proceedings.

This decision has ramifications for national litigation and EPO proceedings run in parallel. Since Parliament expressly set up a system where patent validity can be heard in two completely separate tribunals, the Supreme Court felt it important that actions in the UK court should take full account of the EPO’s findings. It seems likely that the court guidelines will be revisited soon, resulting in more frequent stays of UK patent cases pending a decision in parallel EPO proceedings.

Software patents and smartphone wars

In May 2013, in *HTC v Apple*, Apple appealed a decision revoking four of its patents,

Patents

Supreme Court decisions

Dealing in replacement parts: In *Schütz v Werit* the Supreme Court considered when a repair constitutes ‘making’ a patented product. Making will constitute an infringement if it is done without the patent owner’s consent, and a supplier of an essential element of the invention may also be liable.

The case concerned an intermediate bulk container, comprising a large plastic container used for transporting liquids within a metal cage. There is a market in reconditioning used intermediate bulk containers: the plastic container may be replaced by a fresh container, but not necessarily from the original manufacturer. *Schütz*, the exclusive licensee under the patent, sued for patent infringement for selling reconditioned bottles. The court found that the replacement of the bottle was not an infringing act.

The court, drawing on decisions of the German Supreme Court on the same issue, raised the following considerations, which

(including the well-known ‘slide to unlock’ patent). The Court of Appeal pitted the EPO ‘any hardware’ approach (where all features of the claimed invention are taken into account when considering patentable subject matter – that is, “any hardware” will render it patentable, but only the technical features are considered when assessing inventive step) against the English *Aerotel* approach (where the court assesses whether the contribution made by the claimed invention over the prior art is technical and hence patentable). The court opined that whichever approach is chosen, it should reach the same result.

In doing so, the court decided that the *Aerotel* approach is still valid and gave a helpful summary of the law in this area. Subsequently, the High Court has followed *Aerotel* in *HTC v Gemalto* and *Lantana Ltd’s Application*, applying the revised guidelines from *HTC v Apple*.

In addition, March 2013 saw a High Court decision in the ongoing *Samsung v Apple* dispute, this time involving three of Samsung’s 3G patents. However, despite this case, the smartphone wars appear to be approaching a ceasefire.

Life sciences

Foreign declarations of non-infringement:

A patent is a national right and is generally considered a matter for the corresponding national courts. However, in May 2013 the Court of Appeal held in *Actavis v Eli Lilly* that the UK court can decide whether a declaration of non-infringement should be granted in respect of French, German, Italian and Spanish designations of the same granted European application, where the UK designation is also in issue and the validity of the patents will not be called into question by the potential infringer.

Therefore, parties should be careful when their lawyers accept service of proceedings in the United Kingdom, especially when Europe-wide litigation is anticipated.

Injunction pending appeal on patent found invalid at first instance:

In May 2013 the Court of Appeal in *Novartis v Hospira* introduced a significant shift in litigation between originators and generic manufacturers. The court granted an interim

injunction to prevent generic sales, pending an appeal decision concerning two patents that had been revoked at first instance.

Generic manufacturers should take note: any plans to ‘clear the path’ must factor in appeal proceedings in their timetable for launch.

Injunction when party refuses to confirm its intentions:

July 2013 saw another significant injunction decision, this time a final injunction granted by the High Court in *Merck v Teva* following an interim injunction in March 2012. Teva had not committed any infringing acts. It merely refused to confirm its intentions with regard to the launch of a generic version of BMS’s product, asserting that its plans were confidential and would not be divulged to a competitor. The court found that the only thing that would prevent Teva from launching was an injunction or an agreement to give BMS advance notice of a launch so that it could obtain an injunction. Teva had been given the opportunity to agree to give notice of a launch, but failed to do so. Consequently, BMS’s only option was to seek the injunction, which was granted.

Therefore, to avoid injunctions, a generic manufacturer with authorisation to market its generic product during the patent or supplementary protection certificate term must be open with regard to its intentions, or must be prepared to agree to give enough notice of a launch to enable the originator to seek an injunction.

Antibodies: The UK courts continue to be a forum for cutting-edge biotechnology matters. In February 2013 the Court of Appeal upheld the first-instance decision in *Regeneron v Genentech* that Genentech’s patent to a class of compounds for the treatment of a class of diseases was valid and infringed. The court confirmed that where one has a claim in the ‘second medical use’ format and a class of compounds is claimed, the therapeutic effect is a feature of the claim. The patent must make it plausible that everything within the class will have the necessary effect. If the patent does not do so, or if it does not work with substantially all compounds within the class, the patent will be invalid.

The High Court followed this approach in June 2013 in *Eli Lilly v Janssen*, in which it held

that Janssen's patent was invalid as it was not plausible that all of the antibodies it claimed would have the necessary therapeutic effect.

Patents County Court renamed

The low-cost alternative to IP litigation in the High Court, the Patents County Court, has changed its name to the Intellectual Property Enterprise Court. The court continues to deliver judgments at an impressive rate – as of October 2013, 33 decisions had been handed down.

Trademarks

The Court of Appeal issued two decisions in the long-running *Interflora v Marks & Spencer* dispute over the use of keywords in search engines. In *Interflora I* the Court of Appeal raised the threshold for admissibility of survey evidence. Formerly an important part of any trademark litigation, such evidence has generally been introduced to demonstrate the public's perception of the trademark. The view of many IP lawyers following *Interflora I* was that although the bar has been raised, it is still possible to use survey evidence in appropriate consumer product cases or in cases of passing off. However, in *Interflora II* Lord Justice Lewison reiterated the Court of Appeal's position in even stronger terms.

In June 2013 the High Court applied *Interflora II* in *Zee v Zeebox* and refused Zee permission to conduct and commission a full survey (Zee had already conducted two pilot surveys). Furthermore, in *Cosmetic Warriors v Amazon.co.uk* the High Court held that the addition of the passing-off claim was insufficient to justify a survey.

Following these decisions, it is clear that those who wish to rely on survey evidence – whether for trademark infringement or in a passing-off claim – will need to present a strong case for doing so. As a result, it seems likely that information from the disclosure process will become a more important tool for proving a case.

Copyright

Copyright regarding software and programming languages

In January 2013 the High Court gave its decision in *SAS Institute v World Programming Limited* following a May 2012 judgment of the

European Court of Justice (ECJ). The case dealt with the issue of whether the functionality of a computer program, as opposed to its code, was protectable by copyright. The ECJ had held that it was not. The High Court generally agreed that there was no copyright infringement in creating a program with the same functionality as an earlier program, where there was no access to source code of the earlier program.

Although software developers may be able to fill the copyright law gap with patent protection, at the EPO at least this is subject to the significant limitation that software-related inventions must have a technical effect.

The High Court further considered whether a programming language itself could be protectable by copyright. Its provisional view was that it could not, drawing an analogy between the programming language and a written language described by dictionaries and grammar, which are not themselves copyright protected, but are the building blocks of literary works that will be.

NLA v Meltwater: copyright on the Internet

Meltwater prepared daily reports of news items automatically from online news sources, based on search terms entered by a subscriber. The reports were emailed and available on Meltwater's website. The question for the court was whether subscribers needed a licence to receive Meltwater's service if the report was made available only on its website. The heart of the matter was whether the viewing would fall within the exception to copyright infringement as involving a "transient and incidental" act of reproduction.

The Supreme Court's view was that temporary copies made automatically when browsing the Web should generally not infringe copyright. However, the view turns on an interpretation of Article 5.1 of the EU InfoSoc Directive (2001/29/EC). The Supreme Court referred the question to the ECJ due to the transnational dimension and potential implication for internet users across the European Union; the ECJ's ruling is awaited with considerable interest given its importance to, in particular, the media industry. **iam**

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