

# Bird & Bird & IP & IT Bytes

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## Passing off: joint liability and common design

### Summary

The Court of Appeal has held that two companies whose role in the design of the product established an arguable case of liability jointly with the existing defendant could be joined to a passing off claim.

### Background

In *Fish & Fish Ltd v Sea Shepherd UK*, the Supreme Court set out the principle that an allegation of joint or shared intention is the essence of joint liability ([2015] UKSC 10). It is not enough to show that one party facilitated another's commissioning of the tort. One party must have acted in a way that furthered the commission of the tort by the other and must have done so in pursuance of a common design. There is no prescribed test: each case depends on its own circumstances.

An action founded on tort shall not be brought after the expiration of six years from the date on which the cause of action accrued (*section 2, Limitation Act 1980*).

### Facts

G issued a passing off claim against UK company S in relation to the get-up of an asthma inhaler. S agreed to another company in its group, SI, being joined as a party to the claim. G applied to join two other German companies in S's group, A and H.

G argued that A, H and SI all took an active role in designing S's product and packaging, so should be primary tortfeasors or joint tortfeasors with S.

The High Court dismissed the application. A and H did no more than facilitate the sale and promotion of the product on the UK market and this did not amount to active co-operation in that sale or promotion. It did not arguably constitute part of a common design with S to sell or promote the product in the UK. It also held that any claim against A and H was statute-barred because it was based on acts carried out over six years before the claim was issued. G appealed.

### Decision

The court allowed the appeal. It ordered that A and H be added as defendants to the claim.

G claimed that the strategy of the group as regards respiratory products was the responsibility of SI, which took decisions about the launch and marketing of the inhaler in particular countries. SI, A and H were responsible for the development of the inhaler, and for its design, including the colour, shape, technical design and overall get-up of and its packaging. G alleged that the design and development was carried out knowing and intending that the inhaler would be marketed and sold throughout the EU, including in the UK. A manufactured the product according to the chosen design and in accordance with the marketing

authorisation, and supplied it to S. All four companies were alleged to have collected or collated data for the marketing authorisation. S was not involved in the design and planning.

The court held that if the promotion, marketing and sale of the product in the UK was tortious on the part of S, then it was clear that the commission of that tort had on these allegations been assisted by each of SI, A and H. It was also clearly alleged that SI, A and H shared a common intention and design that the product should be sold in the UK, as well as in other markets, with the chosen design and get-up, subject to obtaining the necessary authorisation. Each of the four companies was alleged to have adopted the particular packaging and get-up with the deliberate intention of deceiving or creating public confusion. In practice, that allegation was directed against SI, A and H, rather than against S, which was not involved in the decisions about the design and get-up. However, this strengthened G's allegation against SI, A and H of having a common design and intention, and between them, to do or to procure the promotion, marketing and sale of the product in the UK, the acts which on G's allegations constituted a tort.

S was alleged to be involved later, after the design decisions had been taken, in the process of obtaining marketing authorisation, and in importing and selling the product in the UK. That was the act in respect of which the other three companies were alleged to have combined with a view to its being done.

G had made out a sufficiently arguable case of liability on the parts of SI, A and H jointly with S for the primary acts of passing off. It did not matter that some of the relevant acts were only done by one or some of the parties, and that S only became involved at a later stage once the decision was made to move towards marketing in the UK, so long as a common design was shared between the parties.

The claim against A and H was not statute-barred. Following *Fish*, the accessory was liable not for his acts of assistance but for the primary actor's tortious act, here, the first promotion and sale of the product in the UK in late 2015.

## Comment

G's practical aim in applying to add A and H was as a means to obtain disclosure relating to the creation of the product designs. Notably, A and H were added to a claim when their involvement was at the design stage of a product several years before the product was launched. As passing off is a territorial right, to be actionable an act of primary passing off must have been committed in the UK. However, this decision confirms that A and H need not themselves have carried out any acts contributing to the common design in the UK in order to become jointly liable with S for passing off within the UK.

S has argued that the work carried out by A and H was undertaken without a specific intention to sell in the EU. As shared intention is crucial to joint liability it remains to be seen whether they will be found liable for passing off on the basis of common design after the full facts are established at trial.

*Case: Glaxo Wellcome UK Ltd (t/a Allen & Hanburys) & Another v Sandoz Ltd & Another [2017] EWCA Civ 227.*

# Trade marks: parallel imports

## Summary

The Court of Appeal has held that a parallel importer had not infringed a claimant's trade mark and that there was no disguised restriction of trade.

## Background

Article 34 of the Treaty on the Functioning of the European Union (TFEU) provides for the free movement of goods between EU member states. Article 36 of the TFEU provides for exceptions: prohibitions or restrictions on imports can be justified on grounds of the protection of industrial and commercial property but must not constitute a means of arbitrary discrimination or a disguised restriction on trade between member states.

Industrial or commercial property includes national trade mark rights. The European Court of Justice (ECJ) has recognised that to give national trade mark rights their full scope and effect would in some cases allow the erection of artificial barriers to trade, that is a "disguised restriction".

In *Bristol-Myers Squibb v Paranova AS*, the ECJ set out a list of conditions (the BMS conditions) that parallel importers must fulfil in order to avoid a trade mark infringement claim, in cases concerning parallel trade in repackaged or relabelled pharmaceutical products. (*Joined cases C-427/93, C-429/93 and C-436/93.*) One condition is that enforcement of the trade mark proprietor's rights would contribute to the artificial partitioning of markets between member states, for example, where the proprietor had put an identical pharmaceutical product on the market in several member states in various forms of packaging, so that repackaging by the parallel importer would be necessary in order to market the product in the member state of import.

## Facts

F marketed drugs under the brand FLYNN, which was registered as UK and EU trade marks. D held licences to import pharmaceuticals into the UK, and imported and sold drugs under these licences.

The dispute related to an anti-epileptic drug (the drug). If obtained from different sources, the drug could produce different effects, so doctors were advised to ensure that patients were maintained on a specific manufacturer's product.

F acquired from P the UK marketing authorisations for capsules of the drug that were manufactured and sold by P elsewhere in the EU at a lower price under the brand name EPANUTIN. F then obtained a licence variation to allow it to sell the capsules in the UK under the name Phenytoin Sodium Flynn. F sent communications to doctors, patients and pharmacists to let them know that the Phenytoin Sodium Flynn product was in fact the Epanutin product under a new name, so establishing a supply chain for the rebranded drug.

D planned to import Epanutin capsules into the UK from elsewhere in the EU, but knew that pharmacists would not be able to use that product to fulfil prescriptions written for Phenytoin Sodium Flynn, as regulations required them to supply a specific brand if it was named in the prescription. The only source of supply for EPANUTIN-branded capsules in the UK was parallel importers. Doctors would not therefore write prescriptions for phenytoin sodium naming Epanutin, as parallel imports were not a guaranteed and stable source of supply for patients. The Medicines and Healthcare Products Regulatory Agency told D that it could not supply the capsules under the generic name of the drug, as this was contrary to the objective of ensuring that each patient was maintained on the same source of supply. D therefore wanted to label their product Phenytoin Sodium Flynn when they imported it into the UK.

F issued proceedings against D for threatened trade mark infringement. D claimed that the proposed use would not be trade mark use, or, if it was, the BMS conditions were fulfilled, so it was not liable for infringement.

The High Court held that D's proposed use was trade mark use and would infringe F's marks ([www.practicallaw.com/6-620-4088](http://www.practicallaw.com/6-620-4088)). The BMS criteria were not fulfilled. The imported goods were placed on the market in the exporting state by P, not by F: the corporate and contractual relationship between F and P did not establish that the same entity controlled the product of EPANUTIN capsules in the country of export and Phenytoin Sodium Flynn capsules in the UK. D appealed.

## Decision

The court dismissed the appeal. It held that a trade mark does not lose significance just because a trade mark owner educates the public as to the properties of the goods it sells under its trade mark. The use of the mark FLYNN did not signify a characteristic of the goods.

The first question was whether the goods that the alleged infringer wished to import had been placed on the market by the trade mark owner or with his consent. Secondly, even if the answer to the first question was no, was the party who did place the goods on the market under a trade mark also in effective control of the trade mark which is sought to be enforced? If the answer to the second question was also no, it would be difficult to see how the enforcement of the trade mark could be for any purposes other than to protect the origin function of the mark.

Here, the questions were therefore whether F had control over the goods it sought to oppose before they were placed on the market in the exporting state, and whether the links between the F and P were such that use of the trade mark FLYNN should be regarded as being under the control of P.

F had no control over the drug sold by P and which D sought to import. F's use of the mark Phenytoin Sodium Flynn was also not under P's control. The specification of the product was determined by F and P was obliged to make the product in compliance with that. Nothing in the agreements between F and P entitled P to stop F changing the product or controlling the trade mark it applied.

Therefore, F had a legitimate interest in the enforcement of its mark against goods that it had not placed on the market under that mark and over which it had no control. P was also not able to control the use which F made of its trade mark rights. Sales of the imported product affected the guarantee of origin which the FLYNN mark entails as harm caused by a defective batch of the drug sold by D would rebound on F. D would also be taking advantage of the reputation of the FLYNN mark in selling their products.

The harm to F here was different in character to that which trade mark owners are able to point to in repackaging and rebranding cases and which is limited through the BMS conditions, because in those cases the goods concerned were the trade mark owner's goods.

## Comment

An interesting aspect of this decision is that the imported goods infringed F's trade mark, and were restrained, even though the parallel importer had to apply F's mark in order to compete, having established that the rebranding was necessary to enable them to market the product in the UK. The critical factors were that F had no control over the goods D wished to import, which were under the control of a third party, P, and that P had no control over F's use of its mark. Therefore, F had a legitimate interest in the enforcement of its mark against goods that it had not placed on the market under that mark and over which it had no control.

*Case: Flynn Pharma Ltd v Drugsrus Ltd and another [2017] EWCA Civ 226.*

## Patents: calculation of account of profits

### Summary

The Intellectual Property Enterprise Court (IPEC) has assessed what proportion of sales of entire articles sold with infringing inserts should be included in an account of profits, and when it was appropriate to deduct general overheads from profits on infringing business.

### Background

Section 61(1)(d) of the Patents Act 1977 entitles a patentee to claim against an infringer an account of the profits derived by him from the infringement.

### Facts

A sued D for infringement of its patent for snap-in shop display panels. The patent was held valid and infringed and A elected for an account of profits.

The IPEC set out the points of principle, from which the parties calculated the sum payable by D. D appealed.

The Court of Appeal allowed the appeal ([www.practicallaw.com/1-625-2388](http://www.practicallaw.com/1-625-2388)). It held that the IPEC was incorrect both on the principles of apportionment of profit and on deduction of overheads, and remitted the case to IPEC.

### Decision

The IPEC set out revised principles to enable the parties to calculate the profit, if any, due to be paid by D to A.

Deciding which part of the profits made by the infringer in the course of his infringing business fell due to the patentee involved two steps. First, the invention must be identified. Generally an invention disclosed in a patent would be that set out in a claim. However, in an inquiry as to damages or an account of profits it was necessary to focus on the narrower idea of "inventive concept" as distinguished from the invention. Second, the profits (if any) made by the defendant from his use of the invention must be identified, taking into account conveyed goods and/or products into which the subject matter of the invention is incorporated.

The Court of Appeal had identified two circumstances in which a losing defendant in a patent action ought also to account for profits from sales of goods other than those which precisely embodied the invention: firstly, where the invention related to an essential feature of those goods; secondly, where those goods would not have existed had the defendant not infringed the claimant's patent. These two criteria were alternatives. If either was satisfied, apportionment was not appropriate.

The "essential feature" meant that the protected feature of the product was functionally and/ or commercially the most significant part of the whole. However, it could be that from the point of view of some buyers the relevant feature was essential while from the point of view of others it was not. Similarly, it was possible that if the protected feature had not been available for use, some of the entire goods would have come into existence, but fewer of them. In those cases the court ought to make a partial apportionment: the infringer had to account for the profit on a proportion of the entire articles.

In addition, if sales of the products embodying the patent infringed "drove" the sales of other goods, the latter qualified as sales of conveyed goods and the defendant was accountable for profits on those sales. The term "drove" meant there had to be a causative link between the sale of the conveyed goods and the consequential sale of infringing goods. This meant there was a perceived compatibility, functional interaction, or some other connection of that nature between the infringing goods and the putative conveyed goods or services. The sale of the putative conveyed goods or services had to be consequential upon the sale of the infringing goods or services, and the sale of the infringing goods or services had to constitute the primary purchasing decision.

The evidential burden in relation to the profits due to a successful claimant was on the infringer, including the issues of whether the defendant had to pay to the claimant his profits on entire articles or an apportioned part of the profits and whether there were sales of conveyed goods for which the defendant had to account. The relevant evidence was more likely to be in the control of the infringer than the claimant.

The Court of Appeal agreed that the inventive concept was the composite idea of a metal insert interacting with the slot of the panel, such that the insert could engage with the panel by snap-in means. Where panels were sold with inserts, they were either sold with infringing inserts incorporated in them or the two were sold simultaneously but separately. In the case of panels with incorporated inserts, it was probable that only a small proportion of the defendant's customers wanted the infringing insert and no substitute. As it was very difficult to determine this proportion accurately, it should be estimated as 10% of those sales, and the entire profit on those sales would be payable by D.

Panels bought separately from the infringing inserts ought not to be treated the same way as panels in which the infringing inserts were incorporated. In cases where customers specified a wish to buy the infringing inserts because of the advantages they offered, the inserts drove associated sales of compatible panels which were conveyed sales, because, if the defendant not been able to provide those inserts, it was likely that those customers would have gone elsewhere for panels. The estimated proportion of those sales of the panels driven by the sales of accompanying inserts in that way was 10%.

Where the customer did not specify infringing inserts, D still made infringing sales requiring determination of what proportion of the profit on the sales of the panels was to be apportioned to the invention: that is, to the inserts and the slots in the panels into which the inserts fitted. It made no difference whether the inserts were incorporated before or after sale. One possible approach was by reference to function. The function of the panel was to act as a frame on which goods could be displayed. One of the requirements of the design was to have a slot compatible with the inserts used. That was a minor, but not insignificant part of the whole function. The best way to estimate the correct figure was to separate the profit on panels and inserts. A was entitled to the whole of the profit made on the relevant inserts plus 10% of the profit made on the panel.

The IPEC also determined whether costs incurred by D in his infringing business might be deducted from the gross relevant profits assessed by the court in an account of profits. Costs associated solely with D's acts of infringement were to be distinguished from general overheads which supported both the infringing business and D's other, non-infringing, businesses. D was entitled to deduct the former costs from gross relevant profits. A proportion of D's general overheads could be deducted from gross relevant profits unless the overheads would have been incurred anyway even if the infringement had not occurred, and the sale of infringing products would not have been replaced by the sale of non-infringing products. The evidential burden was on D to support a claim that costs specific to the infringement and/ or a proportion of general overheads were to be deducted from profits due to A.

## Comment

The difficulties in this case illustrate why successful patent infringement claimants usually elect for an award of damages rather than an account of profits, except in the simplest cases.

*Case: Abbott and another v Design & Display Ltd and another [2017] EWHC 932 (IPEC).*



# Intellectual Property (Unjustified Threats) Act 2017

## Summary

The Intellectual Property (Unjustified Threats) Act 2017 (the Act ) has received Royal Assent.

## Background

UK legislation provides for protection against groundless threats of infringement proceedings by the holder of a patent, trade mark, unregistered design right or registered design. The claimant in a threats action can seek a declaration that the threats lacked justification, damages and an injunction to prevent further threats.

In April 2013, the Law Commission consulted on possible reforms to the UK legislative provisions relating to unjustified threats of intellectual property (IP) infringement proceedings and published its report in April 2014 (see *Briefing "Groundless threats of IP proceedings: a potential solution?"*, [www.practicallaw.com/7-569-1729](http://www.practicallaw.com/7-569-1729)). In October 2015, the Law Commission published a draft version of the Bill (see *News brief "Unjustified threats regime: greater certainty but risks remain"*, [www.practicallaw.com/0-620-4699](http://www.practicallaw.com/0-620-4699)).

## Facts

The Act sets out several changes to the law.

The threat test is modified so that it relates to whether the communication would reasonably be understood by a recipient to mean that someone intends to bring infringement proceedings in respect of a relevant IP right for an act done in the UK or which, if done, would be done in the UK (*section 70(1), Patents Act 1977*) (1977 Act). The threat need no longer be understood as being to bring UK proceedings. This change also ensures that the threats provisions can apply to the unitary patent.

Threats can be made in mass communications such as press releases and do not have to be made to an identified individual. This replicates the current case law (*section 70(2), 1977 Act*).

The existing exception for threats relating to specified primary acts of infringement of the particular IP right in question (such as making or importing a product) is extended to threats that refer to intended primary acts (*section 70A(3), 1977 Act*). For trade marks only, the primary act of applying a sign to goods or their packaging also extends to the act of causing another person to apply that sign (*section 21A(2)(a), Trade Marks Act 1994*) (TMA).

The primary actor exclusion for patents introduced by the Patents Act 2004, which allows a threat covered by the exception to a person relating to specified primary acts also to refer to secondary acts, is extended to trade marks and designs (*section 21A(4), TMA; section 26A(4), Registered Designs Act 1949; section 253A(4), Copyright, Designs and Patents Act 1998 CDPA; regulation 2A(4), Community Designs Regulation (6/2002/EC)*).

There is a new "safe harbour" to allow a rights-holder, or someone acting on its behalf, to communicate with a person who might otherwise be able to sue for unjustified threats, where they make a threat which is not an express threat (*sections 70A(5) and 70B, 1977 Act*), provided that:

- The communication must be made for a permitted purpose. Three permitted purposes are set out (*section 70B(2), 1977 Act*), but the court may treat another purpose as a permitted purpose if it considers it in the interests of justice to do so (*section 70B(3), 1977 Act*). Various purposes not deemed to be permitted purposes are also listed (*section 70B(4), 1977 Act*).
- All of the information relating to the threat must be necessary for that purpose. Three examples of necessary information are given (there are equivalents for the other relevant IP rights), namely a statement that a patent exists and is in force or that a patent application has been made; details of the patent, or of a right in or under the patent, which are accurate in all material respects, and not misleading; and information enabling the identification of the products or processes in respect of which it is alleged that acts infringing the patent have been carried out (*section 70B(5), 1977 Act*).

- The person making the communication must reasonably believe that the information is true.

A threat is justified if it is shown that the act to which the threat relates was or would be infringing. The express provision that a person aggrieved may still obtain a remedy if the relevant IP right is shown to be invalid is removed as unnecessary (*section 70C(3), 1977 Act*). Since an invalid right cannot be infringed, a threat made regarding it cannot be justified.

The defence for threats made to a secondary actor where no primary actor can be found, is extended to trade marks and designs. The defence is also revised to require that the threatener took "reasonable steps" to identify a primary actor, instead of "best endeavours".

There is new protection for professional advisers, providing legal services or trade mark or patent attorney services, provided that they are making the communication on the instructions of another person; and that when the communication is made, they identify that person (*section 70D(3), 1977 Act*).

Where a threat to sue is made before a registered trade mark or registered design is granted (and in respect of a pre-grant infringement), the threat is understood to mean that proceedings will be brought after grant, with the issue of whether the acts complained of are infringing being determined on the basis of the right as granted (*section 70E, 1977 Act*). This point was clear from case law in relation to patents, but less clear for registered trade marks and designs.

Infringement proceedings is extended to include threats to bring proceedings seeking an order for delivery up and disposal, including amendments to ensure that it covers the new unitary patent (*section 70F, 1977 Act*).

Only provisions concerning commencement and the territory came into force on 27 April 2017. The remaining substantive provisions will be brought into force by statutory instrument. The commencement date has not been confirmed but the Intellectual Property Office hopes that it will be in force from 1 October 2017.

## Comment

The Act is intended to encourage the resolution of disputes and implements long overdue reforms bringing the law regarding threats in relation to trade marks and designs in line with that relating to patents. The law regarding unjustified threats in relation to IP rights remains a potential minefield. The tort remains one of strict liability with no requirement of intention, only what is reasonably understood about the intention.

Even when the changes in the Act come fully into force certain key concepts will require interpretation: for example, the extent to which the courts will exercise their discretion to extend the scope of a permitted purpose in relation to permitted communications beyond those specified, and the question of when a communication is necessary for a permitted purpose. Also unclear is what amounts to reasonable steps that need to be taken before a person making a threat can rely on the defence of last resort allowing one to contact secondary actors where no primary actor can be found, although there may be guidance from patent law where this defence has been previously available.

Copyright and unregistered trade mark rights (passing off) anomalously continue to be unaffected by the Act.

*Source: UK Parliament: Intellectual Property (Unjustified Threats) Bill: Commons stages, 28 April 2017 and Intellectual Property (Unjustified Threats) Act 2017.*





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