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Registered Community design: unregistered exclusive licence

Summary

The European Court of Justice (ECJ) has held that an exclusive licensee could bring proceedings for infringement of a registered Community design (RCD), even though the licence had not been registered.

Background

Licences of RCDs only have effect as against third parties after entry in the Community designs register. Before registration, those acts have effect on third parties who have acquired rights in the RCD after the date of that act but who knew of the act at the date on which the rights were acquired (*Article 33(2), Community Designs Regulation (6/2002/EC)*) (2002 Regulation) (Article 33(2)).

A licensee may intervene in an infringement action brought by the rights holder for the purpose of obtaining damages for its losses (*Article 32(4), 2002 Regulation*) (Article 32(4)).

In *Youssef Hassan v Breiding Vertriebsgesellschaft mbH*, the ECJ held that a licensee of an EU trade mark was not prevented from bringing an action for infringement even though the licence was unregistered (*C-163/15*).

Facts

G was the exclusive licensee in Germany for an RCD for laundry balls. The licence was not entered on the register of Community designs. Following G's letter before action, T gave undertakings to stop selling balls which infringed the RCD.

The German court held that G was entitled to bring the action for damages in its own name. T appealed, arguing that G was not entitled to bring claims arising from the RCD.

The German court referred to the ECJ the question of whether G could bring infringement proceedings as licensee where the licence had not been registered.

Decision

The ECJ held that Article 33(2) was intended to protect a person who had rights in an RCD as an object of property, and therefore did not apply to a situation where the licensee of an RCD complained that a third party had infringed the rights conferred by the RCD. So it did not prevent a licensee from bringing proceedings for infringement of an RCD that was the subject of a licence that had not been registered.

A Community design licensee can also claim damages for its own loss in infringement proceedings brought by it in accordance with Article 32(3), which allows a licensee to bring infringement proceedings itself with the rights holder's consent, or, in the case of an exclusive licence, where the rights holder fails to bring infringement proceedings within an appropriate period of having been given notice to do so. While a licensee

could intervene in an action brought by the rights holder as provided for in Article 32(4), nothing prevented G from also seeking damages for its own losses where it brought the infringement proceedings itself under Article 32(3).

Comment

A similar conclusion regarding the effect of failure to register was reached in *Youssef Hassan*. However, it remains advisable for licensees of RCDs to protect themselves by registering against the grant of further licences or the sale of the RCD by the owner, or other conflicting interests. Licensees continue to need the consent of the RCD owner before they can bring infringement proceedings, although an exclusive licensee can commence proceedings if the owner does not do so within an appropriate period after giving notice.

Case: Thomas Philipps GmbH & Co KG v Grüne Welle Vertriebs GmbH, C-419/15.

Breach of confidence: assessment of damages

Summary

The Court of Appeal has provided guidance on the calculation of damages for the sale of products whose manufacture is derived from the misuse of confidential information, though they are not actually made using that information.

Background

In a patent infringement case, the House of Lords identified three ways that damages could be assessed:

- Where the claimant itself exploits the patent by selling articles or products, damages will generally be based on the loss of profits caused by the infringement: the profit which would have been realised by the claimant if the sales diverted to the defendant as a result of the infringement had been made by the claimant. The claimant must show that the sales would not have been made by the defendant but for the infringement.
- Where patented technology is exploited by granting licences, damages are usually based on the royalty which the infringer would have paid if it had a licence. In making this assessment, the court will consider any comparable licences.
- In cases where it is not possible to show that there is a normal rate of profit, or a normal royalty rate, the royalty is usually assessed on the basis of the notional licence fee that would have been payable between a willing licensor and licensee (the user principle) (*General Tire and Rubber Company v Firestone Tyre and Rubber Company Ltd* [1976] RPC 197).

Many customers only buy mosquito nets that have approval from the World Health Organization (WHO).

Facts

A consultant, S, developed a formula while working for V (the confidential information). S then used the confidential information while working for B. As a result, B was able to manufacture two types of mosquito nets that obtained WHO approval:

- Nets made to a formula based on the confidential information (first formula nets).
- Nets made to a modified version of that formula, developed by S while working for B (later formula nets).

V issued proceedings against B for breach of confidence involving the misappropriation of trade secrets.

The High Court ruled in V's favour on liability. The Court of Appeal and the Supreme Court upheld this decision. The High Court was then asked to assess damages.

The High Court assessed the damages in relation to the first formula nets according to the principles in *General Tire* (www.practicallaw.com/7-589-4072). This resulted in an award for lost profits in relation to diverted sales of the first formula nets, and a royalty on the remainder of those nets sold.

In relation to the later formula nets the court awarded a lump sum quasi -consultancy fee but declined to award compensation for accelerated entry or on a head-start basis. Both parties appealed the decision in relation to the later formula nets.

Decision

The court upheld the award of damages to V. The approach used when considering damages which flowed from sales of products which misused confidential information was not automatically correct when considering damages for derived products. The act which gave rise to the harm, and therefore to V's right to be compensated in damages, was no longer the sale of B's product, because that sale was not itself a wrongful act. Instead it was necessary to determine what recoverable harm could be traced back to the initial wrongful use of the confidential information to develop the product.

Where the misuse of confidential information had been a basis for developing a derived product which did not itself constitute a misuse, the consequences of the activity being wrongful were likely to be the acceleration or facilitation of lawful competition. Here, the proper measure of damages was the extent to which V was harmed by having to face this competition sooner, or to a greater extent than it otherwise might have done.

Damages did not extend to cover all the foreseeable consequences of B's acts. The evidence showed that, although the information was not in the public domain, a team with the technical and other skills of B would have been able to produce a competing product.

The approach of awarding damages for accelerated entry plus a quasi-consultancy fee was appropriate. There was no reason to reject the evaluation of a six-month delay to the project. This delay would not have caused V to lose its place in the queue for WHO approval.

The royalty rate should be determined according to the user principle for those sales which V could not establish caused them to lose profits: it should not be set as high as possible due to V's position as a manufacturer. There was no reason to upset the royalty rate of 4%.

The quasi-consultancy fee was also correctly assessed in that it compensated V for the use made of its confidential information in developing the later formula nets, but was not intended to give it a share in the benefits derived by B from its use.

Comment

This decision provides helpful guidance on the calculation of damages for the sale of products whose manufacture is derived from the misuse of confidential information, even though they are not actually made using that information. Two very different approaches applied to calculations of damages for the first formula nets and the later formula nets. The decision confirms that damages will still be payable even where the later development arises indirectly from the confidential information, such damages to be assessed by reference to a notional consultancy rate. The decision also confirms that, although here V was not entitled to additional springboard damages as compensation for accelerated entry into the market, these damages may be appropriate on different facts.

Case: MVF 3 APS (formerly Vestergaard Frandsen A/S) and others v Bestnet Europe Ltd and others [2016] EWCA Civ 541.

Patents: injunctive relief for threatened infringement

Summary

The High Court held that any future patent infringement in a quia timet action would be de minimis, and that to grant an injunction would be both disproportionate and a barrier to legitimate trade.

Background

A patentee does not need to establish that the defendant has already committed a wrongful act in order to commence infringement proceedings. Proceedings may be commenced if the defendant threatens to do an act which will infringe the patent (*quia timet claims*).

Remedies for patent infringement, in particular injunctions, must be effective, proportionate and dissuasive, and must be applied so as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse (*Article 3(2), Intellectual Property Enforcement Directive (2004/48/EC)*) (Enforcement Directive).

The meaning and scope of a numerical range in a patent claim is ascertained in light of the common general knowledge and in the context of the specification as a whole. In the absence of a clear indication in the patent, the skilled person will understand that the patentee had chosen to express numerals in the claim to a particular but limited degree of precision and so intended the claim to include all values which fell within the claimed range when stated with the same degree of precision (*Smith & Nephew plc v Convatec Technologies Inc*, www.practicallaw.com/3-617-5351).

Facts

N owned a European patent for a seven-day transdermal patch for the treatment of pain. S obtained a UK marketing authorisation for a competing transdermal patch. R intended to market a transdermal patch, but had not yet received marketing authorisation.

N sued for patent infringement and applied for an interim injunction against S. S gave temporary undertakings.

N also sought an interim injunction against R. R counterclaimed for a declaration of non-infringement.

Decision

The court held that neither S's nor R's products would fall within the patent claim, so there was no threat by S or R to infringe N's patent.

The patent claim was expressed in terms of percentage weights of various components. In a scientific context the precision with which numbers are expressed is dictated by the number of significant figures or decimal places. In order to compare one number which is expressed to a particular degree of precision with another which is expressed to a different and greater degree of precision, it might be necessary to round the second number to the same degree of precision as the first, in accordance with the standard convention.

Here, the numerical limits in the claim were construed as being expressed to the nearest whole number. The term "about" in the claim did not make the claim invalid, but rather connoted a small degree of permitted imprecision over that implied by the usual rounding convention.

If there was a clear threat to do acts which would fall within the claim sufficiently often that they could not be discounted as *de minimis*, then that was sufficient to justify the bringing of proceedings on a *quia timet* basis. Whether it was sufficient to justify the grant of an injunction was a separate question. N bore the burden of proving that the acts which S proposed to do in the period before expiry of the patent would result in infringement on a scale which was more than *de minimis*.

The manufacturing processes used to produce patches were inherently variable. So, even if the specification for S's product was intended to ensure that the percentage of a particular content of the patch was outside the claimed range, it was inevitable that some patches would have more and some less. Analytical techniques were not precise. Therefore, even when dealing with past infringements, there could not be a precise answer to the question of the percentage which fell within the claimed range.

Most of the patches had not yet been manufactured. Since the testing was destructive, it would be necessary to test only a representative sample rather than all the patches. It was not possible from the tests carried out to date to determine how representative the tested samples were of the whole population.

The standard of proof for civil claims was the balance of probabilities. N should not be subjected to a more stringent burden of proof in relation to future as opposed to past events. R should likewise not be subject to a higher standard of proof in its claim for a declaration of non-infringement.

N had to prove, on the balance of probabilities, what proportion of patches would fall within the claim, and whether that proportion was more than *de minimis*. The answer to the first issue would inevitably be affected by the uncertainties caused by the lack of precision in the analytical data and the relatively small number of samples tested so far. A statistical test which took these matters into account had to be applied.

N chose to accept the analytical data relied on by S based on the small number of samples tested so far instead of waiting for a larger quantity of data. N could not take advantage of the uncertainties relating to the statistical test and must accept that these uncertainties made it more difficult to establish on the balance of probabilities what proportion of patches would fall within the claim.

Applying the Enforcement Directive, an injunction would be disproportionate because the harm to the patentee from infringement on such a small scale would be indistinguishable from the harm caused by wholly non-infringing acts. It would also be a barrier to legitimate trade because the practical effect of an injunction would be to require S and R to operate even further outside the boundaries of the claim, effectively extending the scope of N's monopoly.

Comment

As regards numerical ranges in patent claims, the court's reasoning here followed that applied in *Convatec*. However, other issues such as how to apply the *de minimis* principle, and how to apply it in relation to a *quia timet* claim, have not previously been judicially considered in patent actions.

The decision also illustrates the difficult practical problems for a patent owner in bringing a *quia timet* action where proof of the threat to infringe depends on the complex analysis of a small number of samples, and where S and R were sophisticated manufacturers with knowledge of the patent and products intended to avoid its claims. The decision also provides guidance in using complex statistical expert evidence to establish the probability of future infringements, particularly in the context of variable manufacturing processes.

Case: NAPP Pharmaceutical Holdings Ltd v Dr Reddy's Laboratories (UK) Ltd and another [2016] EWHC 1517 (Pat).

Trade mark application: compensation for infringing acts

Summary

The European Court of Justice (ECJ) has ruled on the meaning of reasonable compensation for acts committed after publication of an EU trade mark (EUTM) application that would, if committed after publication of the EUTM registration, be actionable as infringements.

Background

The rights conferred by an EUTM prevail against third parties from the date of publication of registration of the EUTM (*Article 9(3), EU Trade Mark Regulation (207/2009/EC); now replaced by Article 9b*) (EUTM Regulation) (*Article 9(3)*). Reasonable compensation may, however, be claimed in respect of acts occurring after the date of publication of an EUTM application, which acts would, after publication of the registration of the EUTM, be prohibited.

EU member states must ensure that infringers who knowingly, or with reasonable grounds to know, engage in infringing activity, pay damages appropriate to the actual prejudice suffered by the rights holder as a result

of the infringement (*Article 13(1), Intellectual Property Enforcement Directive (2004/48/EC)*) (Enforcement Directive).

Where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity, member states may order the recovery of profits or the payment of damages, which may be pre-established (*Article 13(2), Enforcement Directive*) (*Article 13(2)*).

Facts

N, the owner of an EUTM, brought infringement proceedings in Estonia seeking a declaration of unlawful use of her EUTM during a period commencing before publication of the EUTM application. N sought, among other things, compensation for non-material harm (mental pain and the impact on her health).

The Estonian court referred questions relating to the interpretation of the EUTM Regulation and the Enforcement Directive to the ECJ.

Decision

The ECJ held that it is clear from the wording of the EUTM Regulation that an EUTM prevails against third parties from the publication of the registration, and not before. Member states cannot provide under their national law that the legal protection of an EUTM could begin on the date of filing of the application for registration.

It was for the national court to decide, in accordance with its procedural rules, whether it would issue an injunction against further infringement despite the fact that N had not requested one.

Reasonable compensation can only relate to the period from publication of the EUTM application, and should be interpreted as encompassing heads of loss that are recoverable under national law, such as damages for moral prejudice. Here, this included injury to health arising from wrongful use of the trade mark.

Since the EUTM Regulation contained no rules relating to damages for infringement, national law applied to these damages. In this context, Article 13 of the Enforcement Directive differentiated between damages for knowing and unwitting infringement, with full compensation being payable for knowing infringement, and merely the recovery of profits and damages being permitted where infringement had not been knowingly committed. As a result, reasonable compensation under Article 9(3) could not exceed the reduced compensation provided for in Article 13(2). It was therefore appropriate to apply the criterion relating to the recovery of profits and to exclude from that compensation redress for wider harm, such as moral prejudice, that the EUTM owner may have suffered from its use. Recovery of profits did, however, fall within the scope of that compensation, as the objective pursued by Article 9(3) was to prevent third parties from improperly and knowingly benefiting from the intrinsic economic value in the application for registration of the EUTM.

Comment

While the conclusions reached in this decision are not surprising, it provides welcome guidance on how to calculate reasonable compensation, a subject which has not been subject to much judicial comment. Compensation for use of an EUTM that is subject to a pending application should be lower than damages for infringement of a registered EUTM, since the interest arising from an application is conditional on its eventual success.

Case: Nikolajeva v OÜ Multi Project C-280/15.



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