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FIGHTING UNFAIR COMPETITION IN THE UK AND GERMANY: AN ANGLO-GERMAN PERSPECTIVE



By Angela Fox

Are you a brand owner with registered trademark rights? Or do you have a registered design or patent right for your top-selling product? So far so good, that registration certificate is likely to be enough on its own to clear the first hurdle against infringers, that is, proving the existence and ownership of rights. But what if a claimant relies on rights of the unregistered kind? For example, business goodwill, a corporate name, or a reputation in a mark extensively used but never protected through registration?

This arises more often than one might think; certain elements of branding, such as shapes or sounds, are not necessarily easily protected through registration, and sometimes a brand owner only realises that registered protection should be sought after a third party has launched a copycat. In these cases, proving that an enforceable right exists at all, and that the claimant is entitled to assert it, suddenly emerges as a threshold

requirement for the ability to bring an action. A would-be claimant who fails to clear this obstacle will not leave the starting gate.

Actions under the law of passing off in the UK and unfair competition in Germany therefore involve more complex evidential questions from the start than ordinary trademark, design and patent infringement matters. Nonetheless, the courts in both countries have provided useful guidance on how the owners of unregistered rights can prove them in enforcement proceedings, and thereby act effectively and decisively against third parties who trade unfairly on the back of a brand owner's investment or an owner of a product with an unusual construction or shape. An understanding of how to bring such actions successfully is essential to a strong IP protection strategy in Germany and the UK, two of the most commercially important jurisdictions in Europe.



United Kingdom

In the United Kingdom in particular, a successful action in passing off requires a basic grasp of two important concepts. First, an action under the law of passing off does not protect a right *per se*, or even a reputation, but rather business goodwill situated in the UK. Second, mere association between two brands is not necessarily determinative of the claim; rather, a defendant's actions must amount to a misrepresentation, amounting to deception, that the defendant's goods and services are those of or are somehow related to or authorised by the claimant.

Under passing off, what the law is protecting is a business owner's property right in goodwill in the UK, which is defined in case law as "the attractive force that brings in custom". It is not enough, though, for a brand name, get-up or other brand insignia to be known to consumers in the UK. There must be customers in the UK who are capable of availing themselves of the claimant's goods and services in the UK. In *Hotel Cipriani SRL v Cipriani (Grosvenor Street) Ltd.* [2010] EWCA Civ 110, the claimant's hotel was in fact in Italy, but customers were able to make bookings by telephone from the UK and through UK travel agents. A mere reputation among English consumers, who are only able to avail themselves of the goods or services abroad, might not be sufficient to give rise to actionable goodwill in the UK.

The Court of Appeal in *Cipriani* regarded the question as arguable, but did not need to decide it in order to find that the claimant in that case **had goodwill**.

How does a business demonstrate that it owns actionable goodwill in the UK? Clearly evidence that it has customers in the UK and has been trading there for a particular length of time under or by reference to the relevant brand insignia is relevant. But a claimant must show something more, namely that its insignia - name, get-up, product or pack shape or other feature - functions as something that attracts customers and tells them that those products and services emanate from or are associated with a particular trade source. Evidence of extensive trading, methods of and investment in advertising and promotion, and size and scale of the business under the relevant brand insignia are all relevant to the assessment.

It is also important, however, to establish goodwill in the relevant business sector. While it is not unknown for passing off cases to succeed where a defendant trades in a different business field entirely, it can be far more difficult to prove the required misrepresentation in such circumstances. In *Robyn Rihanna Fenty v Arcadia Group Brands Ltd. (t/a Topshop)* [2013] EWHC 2310 (Ch), the claimant Rihanna enjoyed substantial goodwill in respect of entertainment services - but the evidence showed that she was also a "style leader" in the world of fashion, who had used

her name and logo in respect of authorised articles of clothing and whose name when seen in relation to clothing would be understood as denoting a Rihanna-endorsed product or authorised Rihanna merchandise. The High Court found that Topshop's sale of t-shirts bearing an unauthorised image of Rihanna amounted to passing off.

Survey evidence can also significantly strengthen a case in passing off where it demonstrates that a statistically significant segment of the relevant consumer universe associates a brand name, get-up or the like with a particular trade source. In *Enterprise Holdings Inc. v Europcar Group UK*, [2015] EWHC 17 (Ch), survey evidence showed that the Enterprise "e" logo had an enhanced distinctive character and was associated with the claimant by significant proportions of respondents. The court went on to find that Europcar, in adopting a similar logo, had committed acts of passing off.

FIGHTING UNFAIR COMPETITION IN THE UK AND GERMANY: (CONT/....)

AN ANGLO-GERMAN PERSPECTIVE

United Kingdom (cont/....)

With regard to confusion, the mere fact that some consumers, or even a significant number of consumers, are caused to wonder whether there might be a connection between a defendant and a claimant for the required misrepresentation to be shown. There has to be more than that—there must be actual deception, or a likelihood of it, for a case in passing off to be made out. Moreover, the question is whether ordinary consumers, purchasing with ordinary caution, are likely to be misled—not whether only a so-called “moron in a hurry” would be confused. So, it is necessary to consider who the average purchaser is, and the ordinary circumstances in which he or she makes a purchase.

Survey evidence on whether consumers are likely to be confused has fallen out of favour before the English courts, who typically regard confusion as a factual question which judges are normally well-equipped to decide for themselves. The best evidence of misrepresentation is in the form of witnesses who have in fact been confused, and witness gathering exercises carried out on the basis of customer service records, which may uncover real instances of confusion, can provide extremely powerful evidence of passing off. Where there has been a substantial period of coexistence without any known instances of confusion, a claimant may have a steeper hill to climb. However, in general the mere fact that there is no evidence of actual confusion does not mean that a court will decline to find passing off, since there are many reasons why instances of confusion may not have come to light.



By Michael Nielsen

Germany

Alongside registered and unregistered IP rights, Germany has a long tradition of protection against imitations or plagiarism through her Unfair Competition Law (“UWG”). The basic provision for the protection against unfair imitations is now in § 4 No. 3 UWG (the former identical provision was in § 4 No. 9 UWG). This provision grants protection if the provider of imitations:

- (a) causes avoidable deception of the purchaser regarding their commercial origin, or
- (b) unreasonably exploits or impairs the assessment of the imitated goods or services, or
- (c) has dishonestly obtained the knowledge or documents needed for the imitations.

This protection under German law has not such a strong focus on brand names as in the UK. One reason for this difference might be the broad protection German Trademark Law gives to unregistered trade names like company names or work titles, in addition to registered trademarks. But if the focus of an imitation primarily refers to the layout of a product packaging, in most cases it is only possible to claim protection against this imitation by Unfair Competition Law. And even if the infringer uses a

different trademark branding on the imitated packaging, this must not necessarily eliminate the deception regarding the origin of the products (BGH, decision of 2/4/2009 – I ZR 144/06 – Knoblauchwürste).

However, there are a number of facets of this protection which are not expressly set out in the legal code but have been developed by the German jurisdiction over decades and adjusted from time to time.





The manufacturer of the original product must show the individual and distinctive character of the original (so called "*wettbewerbliche Eigenart*"). This is an unwritten precondition developed by the judiciary. In most cases it is sufficient that the product layout or shape differs from other comparable products on the German market. As the original manufacturer must provide this information in court proceedings, it is recommended to gather details concerning the shape, design or technical features of other competitor's products from time to time.

The protection under Unfair Competition Law furthermore requires a certain minimum awareness or recognition of the product on the German market. The awareness of the product on foreign markets is not sufficient to claim protection against the imitation on the German market (BGH, decision of 9/ 10/2008 – I ZR 126/06 – *Gebäckpresse*).

Protection against imitation by Unfair Competition Law exists alongside the protection of IP rights (OLG Düsseldorf, decision of 31/01/2012 - I-20 U 175/11 – *Apple v Samsung – Galaxy Tab*) and can even be claimed if a corresponding IP right has expired (BGH, decision of 22/1/2015

– I ZR 107/13 – *Exzenterzähne*). In particular, if a patent or design right will expire in the foreseeable future and the corresponding product is still a top-seller, the owner should prepare for the protection of this product by Unfair Competition Law in due time by gathering all information about the recognition of its own product and its specific characteristics compared to the rest of the market.

But even if you think you have strong legal protection for your product against the infringement of IP rights or the imitation of your product, you must act carefully by means of warning letters. For example, there has been a recent trend for IP right owners to try to stop the distribution of the infringing products on internet market places like Amazon by informing the provider about the infringement, rather than attacking the alleged infringer or imitator directly. This is typically done without warning to the primary originator of the product. In this case the owner of the IP right must give all necessary information concerning the IP rights and the alleged infringement of these rights to the provider of the market place (LG Düsseldorf, decision of 11/2/2014 - 4a O 88/12). Otherwise the supposed infringer is allowed to claim for protection against the unfair obstruction by the IP right owner.

At **Maucher Jenkins**, we have, for example, successfully defended our client, Pearl GmbH, by obtaining an injunction from the Düsseldorf district court against a US company, who had German utility models for certain 3D printing devices and who engaged in the practice of making overstated complaints of IP infringement to Amazon to block Pearl's products from being sold through that company. We brought forward evidence before the Court that that the US company's utility models were limited in ways that did not read onto Pearl's products and that the US company concealed essential facts regarding the scope and validity of their rights when filing their complaint with Amazon. The District Court of Düsseldorf, the leading court for patent infringement proceedings in Europe, issued an injunction against the US company, which has now been recognized by the latter as final settlement.

WHAT NOW FOR THE UNIFIED PATENTS COURT FOLLOWING THE BREXIT REFERENDUM?



By Hugh Dunlop

The Unified Patents Court is to be a new patents court for European patents and for new “unitary” European patents, established by agreement among 25 EU member states including the UK. The Cameron government was at the fore in pressing for the unitary patent and the new court. It was agreed by negotiation that a section of the Central Division of the new court would be in London. This is explicit in the Unified Patents Court Agreement¹. Now that the UK electorate have voted to leave the EU, a hiatus is created. The court cannot open for business without ratification by the UK, and the other participating states cannot bypass the UK while the UK remains a member of the EU.

A burning question among IP practitioners in Europe is whether it might yet be politically possible for the new UK government to proceed with the project and yet leave the EU. Surprisingly, this may not be such a major dichotomy.

Britain will remain in the EPC

Britain has been a member of the European Patent Convention since its inception in 1973 and will remain a member. The EPC is not an EU institution and extends to ten non-EU states such as Turkey, Norway and Switzerland. Membership of the EPC merely cedes to the European Patent Office the administrative task of granting patents that will be recognized and enforced by the courts of the Member States. It is a convenient and efficient arrangement that benefits businesses across the extended European region and has no bearing on free movement of goods, capital or people. There is no suggestion that the UK referendum has any bearing on this arrangement continuing.

The EPC also includes the basis for the unitary patent. It provides that its members may agree amongst themselves that a patent granted by the EPO may have a unitary character throughout their territories². The manner by which a group of such states has emerged is under the “enhanced co-operation” provisions introduced in the 1997 Treaty of Amsterdam, when the EU enlarged from 12 states to 15 states, and under a decision of the EU Council to permit such a co-operation, followed by two Regulations³ (one from the Parliament and the Council and the other from the Council) putting in place the necessary legislation.

Essential to a unitary patent is a Unified Patent Court (UPC) that will uphold such patents in the territories of the participating members, but (with one fairly minor exception discussed below), it is not essential that the participating states be EU states. It merely happens to be the case that the court and the unitary patent have emerged under the auspices of the EU, where there has been the political will and the means to make it a reality.

If the UK now exits from the EU and in so doing also exits from the unitary patent and the UPC, it is estimated that a unitary patent will be 30% diminished in value. Patent holders would have to enforce their UK patents before the UK courts and could enforce their unitary patents before divisions of the new court in France or Germany or elsewhere, but in practice, the German local divisions of the court would be popular, as are the present *Landesgericht* courts in Germany. The system would be very similar to the status quo. The entire project would be vastly diminished in value. Indeed, the project would introduce more courts and more uncertainty for considerably reduced positive benefit.



Status following the Brexit Vote

The program is in an advanced stage. The IT systems are ready (designed and tested under contract from the UKIPO) and a protocol has been agreed to allow staff to be hired and trained. All that remains is for a small number of states, including the UK and Germany, to ratify the agreement and it will come into effect for the whole of the EU (except Spain and Poland who have opted out).

The official UK position is that the UPC is merely one of many issues that need to be negotiated by the incoming UK government in its overall trade negotiations with the EU⁴. The official position of the UPC Preparatory Committee is that “pending more clarity about different possible scenarios, work dedicated to the technical implementation should continue to progress as envisaged, in accordance with the mandate of the Committee⁵.” This includes pressing ahead with the recruitment of judges for the new court.

A question for the new UK government is whether to ratify the agreement while still a member of the EU and thereby allow the court to get on with its program and allow UK lawyers and patent attorneys to be registered to act before the court. As matters stand,

once registered, a patent attorney cannot be removed from the register other than on disciplinary grounds. Under this scenario, even if the UK were to eventually leave the EU and there were no new agreement on continued membership of the unitary patent and the UPC, such UK lawyers and patent attorneys could yet remain on the register and appear before the court anywhere in Europe, noting that the court would have jurisdiction over not just the EU part of a European patent, but over “traditional” European patents within its jurisdiction.

In the grand scheme of all the issues that need to be negotiated in the course of the UK’s exit from the EU, merely ratifying the agreement as it stands would be a small and unlikely step forward if it had to be followed by a much larger step back. But there **need not necessarily be any exit from the UPC** upon exit from the EU. (see over)



¹ Art. 7(2) UPCA

² Article 142(1) EPC – “Unitary patents”: Any group of Contracting States, which has provided by a special agreement that a European patent granted for those States has a unitary character throughout their territories, may provide that a European patent may only be granted jointly in respect of all those States.

³ Regulations 1257/2012 and 1260/2012 of 17 December 2012

⁴ Speech by Baroness Neville-Rolfe, UK minister for Intellectual Property to UNION on 29 June 2016

⁵ 17th meeting of the Preparatory Committee, 30 June 2016, Stockholm.

UK NEED NOT NECESSARILY EXIT THE UPC

Primacy of EU Law

It is a tenet of the UPC Agreement that the new court must apply the law of the European Union and respect its primacy. Decisions of the Court of Justice of the EU shall be binding on the new court⁶. This is a stumbling block for the new UK government if it wishes to continue to be a member of the system when leaving the EU. It will involve some political risk to agree, following Brexit, to joining a new court that is in turn bound by the CJEU, but there are reasons why that risk may be acceptable.

First, it must be remembered that the rights conferred by a unitary patent are not defined in the EU Regulations but in the UPC Agreement. It is the clear intention that these rights are not part of EU law and are not subject to the ultimate jurisdiction of the CJEU. The exception is the extent to which they may conflict with competition law and the law relating to unfair competition. That exception requires that each government indemnifies the court against damage that may arise from

failure to comply with EU law – a slightly obscure provision added following a review by the CJEU of an earlier draft. But for this safeguard, the entire project could be viewed entirely as an intergovernmental agreement – the very sort of agreement the new UK government may wish to forge to deepen its trade relations with the EU while remaining outside.



“
**BREXIT
MEANS
BREXIT”**

Theresa May, the new Prime Minister, has stated that “Brexit means Brexit” – a statement that is not as unequivocal as it may sound.

She means, at least, that it will be her government’s program to implement the will of the electorate and lead the UK out of the EU, but as to timetable and tactics, there is great scope for interpretation.

Will it be politically impossible to proceed with ratification of the UPC agreement in the remaining time of the UK’s membership of the EU? The new court would allow a patent owner from, say, Germany to sue a UK company in Germany before a division of the Court in Germany. One can imagine the headlines in the British press, but is such a situation so far removed from the status quo by which any UK company could be sued for patent infringement in Germany based on its

activities in Germany? The difference is that the court in Germany can reach out to all the damages arising from the UK company’s activities across the EU, rather than just the damages in Germany.

Such a step is minor in the context of the whole renegotiation between the UK and the EU of enforcement of judgements between respective courts. If, for example, the UK seeks (and the other EU states agree to) continuing the Brussels Regulation

with appropriate modifications to provide for the UK’s status as a third state, many of the difficulties with recognizing primacy of EU law would be directly addressed. This would be a shortcut to overcoming a number of exit issues but depends on the political appetite on both sides. It might be possible to “sell” this to the UK electorate, but the other EU states may not be minded to making exit easy by agreeing to such a special status for the UK.



Nevertheless, amending the agreement to remove the primacy of EU law would change the nature of the entire project. If that is what it takes to satisfy the UK electorate, it is better to set the project aside for another decade. The question to ask is whether the new UK government might countenance ceding jurisdiction for patent infringement (and damages and all the ancillary measures) to a new inter-governmental court that is answerable to the CJEU at least in respect of competition law. All other questions at present merely address the interim situation pending triggering of Art. 50 TFEU and pending the 2-year period for exit under that article (or longer period if agreed).

⁶ Arts. 20 & 21 UPC

CONCLUSION

The UPC project will have to be revised to the new reality of Britain being an unwilling member of the EU about to file divorce proceedings under Art. 50 TFEU. The UPC Agreement cannot continue as it is – either Art 7(2) must be revised or some other solution must be found. London's position as the host city for the Central Division of the Court is in grave jeopardy, but so too is the entire project. There can be no further progress until the new UK government sets the timetable. In the meantime it is folly to appoint judges or hire staff.

Germany was initially unhappy with the small part of the Central Division that was allocated to Munich, but merely allocating a bigger share of a smaller pie to Munich serves none of the stakeholders.

The UPC Agreement is open only to EU Member States. This would require amendment if the solutions discussed above were to be implemented. Clearly, negotiation of a successor to the Brussels Agreement

will take time. Consequential amendment of the UPC might be simple - Art 87(2) of the UPC Agreement empowers the Administrative Committee to make the necessary amendments to bring the agreement in line with a UK exit agreement. So, if a successful end is in sight, the UK could indeed ratify the UPC Agreement while still an EU Member, as there are clear and direct benefits to the UK economy that can be presented to an electorate that is more concerned with immigration and the economy than with UK companies having to comply with relatively obscure rulings of the CJEU.

In any case, there can be no action by the other states participating in the system until negotiations under Art. 50 TFEU have run their course. This is no more open for pre-emptive action than, say, opening of the channel crossing to migrants from France or closing of the UK's borders to migrants from the EU or cessation of the UK's payments to the EU budget. All must be negotiated or nothing can be negotiated.

GERMAN FEDERAL COURT MORE PRAGMATIC AND LESS DOGMATIC THAN EPO



By Cornelius Mertzlufft-Paufler

In Germany, the Federal Court of Justice (*Bundesgerichtshof*) ultimately governs infringement and nullity actions concerning German patents, German utility models, and German parts of European patents, while opposition proceedings for European patents fall within the competence of the European Patent Office and its Boards of Appeal. Moreover, nullity and infringement actions for other national parts of European patents are heard before other national courts. This may lead to situations of differing decisions by different courts concerning essentially the same question, yet posed at different stages in a patent's life or for parallel IP rights. In order to safeguard a uniform case law, therefore, the Federal Court has, in recent years, repeatedly expressed that German courts have an obligation to consider the reasons of national European courts and of the EPO if they wish to deviate from an earlier decision handed down by them. This has led to an ever increasing convergence of the case law towards the European standards.

In two recent cases, however, the Federal Court has firmly and deliberately deviated from the practice of the EPO.

“Wound Treatment Apparatus”

Wundbehandlungsvorrichtung,
X ZB 161/12 of 2 December 2014

This decision concerned the German part of European patent EP 1 088 569 directed to a wound treatment apparatus. An apparatus of this kind known from the prior art is shown in fig. 1, where 210 is a wound, 36 is a porous foam pad, 37 is a suction tube and 43 is an air-tight seal.

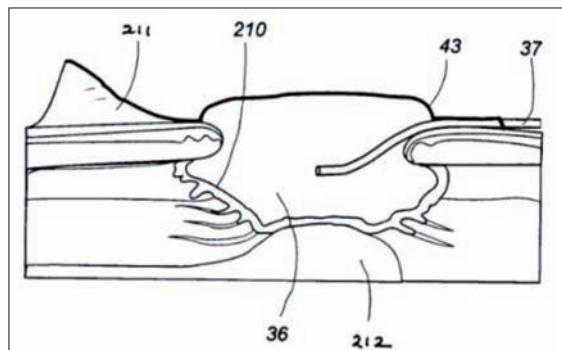


Fig. 1. A wound treatment apparatus defining prior art to EP 1 088 569.

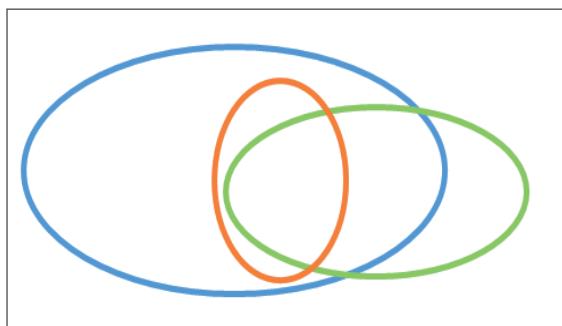


Fig. 2. Amendments to EP 1 088 569 in an illustration using set diagrams. Blue line: original disclosure of EP 1 088 569, green line: “lower face” feature, orange line: “spout” feature



Claim 1 of EP 1 088 569 as granted reads

1 Apparatus for applying negative pressure to a superficial wound in a mammal which comprises a porous pad ... and a connector for connecting the pad to a suction tube, said connector comprising a disc-like cup having its lower face in contact with said porous pad.

The Federal Court found that the feature of the disc-like cup having its lower face in contact with the porous pad (the “lower face” feature) was not disclosed in the original application as filed. According to the case law of the EPO, the patent **should have been revoked**, because it violates Art. 123(2) EPC and this cannot be rectified without violating Art. 123(3) EPC.

However, in the nullity proceedings, the patent proprietor filed a new claim 1 in which the additional feature of “*said connector having a spout for connecting to the end of the suction tube remote from the pump to the wound site*” (the “spout” feature) was added to claim 1 (cf. Fig. 2). For this claim, the court found that the feature combination of claim 1 without the “lower face” feature was originally disclosed, so adding the “spout” feature is admissible. Moreover, the “lower face” feature merely defines a (voluntary, undisclosed) limitation to an otherwise admissible claim. According to the Federal Court’s earlier decisions concerning purely national German patents, such a situation should **not** lead to an automatic revocation of the patent. Rather, the undisclosed feature should be disregarded in subsequent novelty and inventive step discussions.

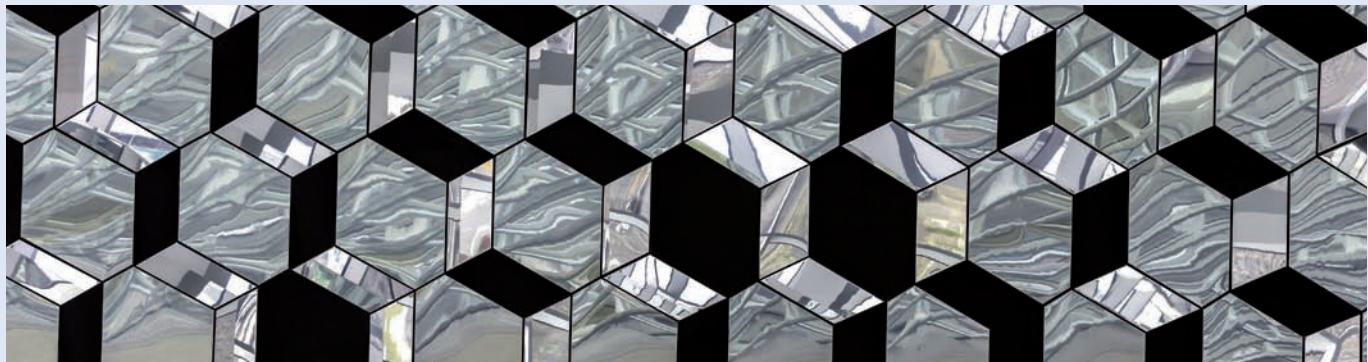
The Court decided that, instead of revoking the patent in full, justice is better served by disregarding the pertinent feature of an undisclosed limitation in novelty and inventive step considerations and taking the limitation into account only in the infringement trials. This approach constitutes **a better balance** between:

- the constitutional right of the patent proprietor to keep his or her property; and
- the interest of the public in revocation of faulty patents

The Federal Court, in its “wound treatment apparatus” decision, points out that Art. 138 EPC reads “European patent may be revoked with effect for a Contracting State only on the grounds that ...”, meaning that the national courts have no obligation to revoke that patent, but if they intend to do so, it may only be based on the grounds listed in Art. 138 EPC. In particular, the Federal Court held that the use of “may” in Art. 138 EPC opens the opportunity for a national court to not revoke a patent, even if one of the grounds laid out in Art. 138 EPC is fulfilled. This and the considerations above would justify not revoking the patent in cases like this.

Accordingly, the Federal Court referred the case back to the court of first instance for consideration of novelty and inventive step of a claim 1 without the “lower face” feature.

GERMAN FEDERAL COURT MORE PRAGMATIC AND LESS DOGMATIC THAN EPO (CONT/...)



“Partially Reflecting Foil”

“Teilreflektierende Folie”, X ZB 112/13 of 15 September 2015

This decision concerned the German part of European patent EP 799 436, claiming priority from a German utility model DE 295 15 073.

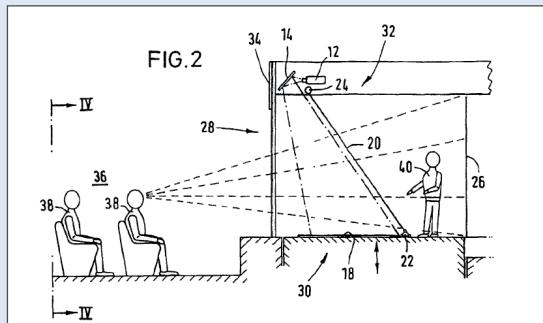


Fig. 3. Embodiment of EP 799 436.

Fig. 3 shows an embodiment of the invention (labeled Fig 2 from the utility model.) The feature of the foil having a “surface area of at least 3 meters times 4 meters” (“area” feature) was **not** disclosed in the utility model application. Indeed, the utility model application did not disclose any value at all for the dimensions of the foil. The “area” feature was introduced as a dependent claim in the European patent application.

If the feature were not originally disclosed in the first filing, the priority of the utility model could not be claimed, with the effect that the (already published) utility model would destroy any inventive step for the European patent.

However, the Federal Court found that the “area” feature was directly and unambiguously disclosed in the

original utility application. For this, the Federal Court considered Figs. 2 (cf. above) and 4 of the utility model application and observed that from the proportion of the height of the lecturing person compared to the distance between the stage floor and the stage ceiling, it can be seen that the foil shown there has a height of at least 3 meters. From a similar argument, using a front view on the stage, a width of at least 4 meters was derived. Therefore, the Federal Court concludes that the priority claim was valid, so that the German part of the European patent should be maintained.

According to the principles developed by the EPO concerning direct and unambiguous disclosure, one may be surprised by this line of reasoning. Not only does the figure show apparent disproportionalities

(cf. the size of the people in the audience and the size of the lecturer) so that one may argue that proportions cannot be derived from this sketch, but it is difficult to argue why the lower limit of the surface area should not be, say 3.2 meters times 3.9 meters.

Moreover, as an alternative argument, the Federal Court mentioned in passing that even if the utility model application did not disclose any limit to the surface area (apart from the limits deriving from the foil being deployable on a stage of usual size), a limitation to the region claimed in the “area” feature could be seen as an admissible limitation to a subregion. This too is surprising, as it would amount to accepting a seemingly arbitrary selection of a subregion from a non-disclosed general region.

Comment

Both decisions, escaping the seemingly “inescapable trap” and widening the meaning of “direct and unambiguous”, are remarkable. The Federal Court seems to deviate deliberately from the standard practice developed by the EPO in order to arrive at results that do not deprive the patent proprietor entirely from his or her rights.

One is tempted to say that the Federal Court of Justice is more **proprietor friendly** than the EPO or at least tries to find solutions that appear to be fair to all sides rather than dogmatically correct.

With the advent of the Unified Patent Court, the Federal Court of Justice will eventually lose its responsibility for German parts of European patents. These recent developments may be seen as an effort to provide an alternative (national) route to patents which is, as compared to the European approach, is not so plagued with formalities and is directed more to the inventors’ rights.

Advice

1. Using the **German national route** to patent protection,

- in addition to a European patent or
- instead of a European patent, may prove to be a smart option to arrive at an acceptable result.

Moreover, filing German national patent applications **in parallel** to European patent applications may become popular again, as the current amendments to the German law in relation to the ratification of the Unitary Patent foresee the coexistent of (German parts of) European patents and German (national) patents, with the ban of double patenting being abandoned. This will be discussed in a later edition of this newsletter.

2. File **English-language patent applications in Germany** – they will be examined in English

Recently, the time limit to provide a translation into German of a patent application filed in English has been extended to 12 months. This means that the **search and first examination** of a patent application will have to be carried out based **on the English text**, as long as the examiner does not require an earlier translation. We can confirm that in a number of cases handled by Maucher Jenkins, the first examination has been carried out without a translation. For cases where an English language specification and claims have been drafted, this allows postponing of the decision as to whether a translation into German should be prepared, until the merits of the case have been considered.

3. Opting out of the soon-to-be-formed UPC for one’s European patents may prevent the patent proprietor from unpleasant surprises that may occur if the strict approach of the EPO is applied (which the new UPC may well adopt).

UK COURT OF APPEAL AWARDS DAMAGES FOR MISUSE OF TRADE SECRET ON EQUAL TERMS WITH PATENT INFRINGEMENT



By Hugh Dunlop

Misappropriation of trade secrets is not an absolute tort from which all derived acts infringe. No injunction was awarded to stop the defendants from making their mosquito nets, even though they were all derived, directly or indirectly from a breach of confidence. An injunction would be a disproportionate remedy, not least because many years had passed by the time the matter fell for judgement and, at worst, the defendants had used the confidential information as a springboard to access the markets some months sooner than they might have done otherwise. Had they started from a clean sheet, they would have been free to devise a set of experiments to find the most efficacious formula, but they would have got there using the skill and knowledge of their consultant which he was free to use as his stock in trade.

A dispute has been running for years between a Danish manufacturer of insecticide-impregnated mosquito nets, MVF, and their former scientific consultant and ex-employees over misappropriation and use of secret formulae for such nets. In 2009, the High Court found that there had been misappropriation and misuse of trade secrets and awarded damages but no injunction. Now, the UK Court of Appeal has upheld the award of damages, confirming that damages arising from misuse of trade secrets may be awarded on a basis analogous to patent infringement where the wrongdoer makes use of or embodies the confidential information in a product. However, where the products put on the market merely take indirect advantage of a breach of confidence, this does not make such sales wrongful in themselves, and a lower measure of damages is appropriate.

There is a fine line between what is a protected trade secret and what is a skilled artisan's stock in trade. This case explores that dividing line in minutiae of detail over many pages and is a must-read for anyone considering taking action for misappropriation of trade secrets.

The parties fought over many years through many courts. The Danish company's principal witnesses, Mr. Larsen, an ex-employee and Dr Skovmand, a former consultant to MVF, changed their testimony many times. They were found to be unreliable witnesses and must have known that certain evidence submitted was not genuine or was misleading.

But in the end, the Danish company won just \$485,419 of damages on sales of \$240 million. The parties' legal fees must have come to many times the damages figure.

Why such a low measure of damages? The reason is because the defendants, Bestnet, made nets according to the stolen formula for only a short period of time and quickly enough devised a new and better formula and began using that. MVF were entitled to damages on a lost-profits basis (a high level of damages) for products that embodied the stolen formula, but the evidence indicated that Bestnet would have been able to compete once they had devised a formula of their own accord and that there were therefore no sales wrongfully diverted from MVF to Bestnet after that time. (Akin to designing around a patent.) For those later sales, all MVF were entitled to was a "quasi-consultancy fee" for the value of the "leg up" that Bestnet had derived through earlier access to the trade secrets.



When all the evidence was in, it must have seemed to MVF (formerly Verstergaard Frandsen) like an open-and-shut case. Was it really necessary to cross-examine a dozen witnesses over a 14-day trial? The defendants' witness admitted he had maintained a copy of a database of over 100 formulae that he had built up while working for the claimants. Unfortunately "yes" – the devil of a trade secrets case is in the detail, and the High Court will expect to scrutinize the detail: "it is well recognized that breach of confidence actions can be used to oppress and harass competitors and ex-employees".¹

Making an insecticide-impregnated net is an art of cooking. You start with the polymer (polyester in the case of MVF and polyethelene in the case of Bestnet) and you can coat it with insecticide or you can mix the insecticide into the polymer prior to extrusion. The latter is preferred, because it has to withstand many washes (typically 20 washes) and you want the level of insecticide at the surface to remain almost as high after the 20th wash. So you have to control the rate at which it migrates to the surface. But extruding a polymer with different additives into a yarn to make a net is much more complicated than merely coating the yarn. The evidence showed there were issues over homogenous mixing and vaporisation during high temperature extrusion. Some mixtures failed to form a yarn at all.

While employed by VF, one of the defendants, Torben Larsen, went to some lengths to impress on others the confidential nature of the company's formulae and ingredients. He even asked the supplier, Ciba, to change the labels on the one of the drums of ingredients to disguise it before sending to a net manufacturer in India, "to keep our recipe secret" and he asked Dr Skovmand not to send emails to the manufacturers with the additive recipe and the batch ingredients in the same document.

Mr Vestergaard Frandsen engaged Dr Skovmand by oral agreement on the steps of the offices of UNHCR in Geneva in December 2000. It was a, "gentleman's" agreement,

which means it was intended to be respected, but binding in honour only. The agreement was not recorded in writing at that time and there were no witnesses. He was paid \$1.8 million over 6 years working for MVF. The court held that confidentiality was "taken as read" in their agreement.

Dr. Skovmand said he merely took, as his starting point, advice from Ciba to use certain additives (referred to in the judgement as Additives A, B and C) to mix in with the polymer. He said that advice was "freely given to me and clearly could not be considered any sort of trade secret". But he was wrong on that point. Even though he had no written contract with Verstergaard Frandsen, he was working for them as a consultant and was under an obligation of confidentiality. He was not free to use that knowledge for another client.

If that were all, it would not have been enough for a successful trade secret action, because that much information had also been published in MVF's published patent application (which named Dr Skovmand as sole inventor and was assigned to MVF). There were other trade secrets. For example, Ciba advised Dr Skovmand that Additive C was not important and that additive G would work better. After extensive experiments paid for by MVF, he found that advice to be wrong. (One might refer to this as a "negative trade secret" – i.e. there is value in knowing what blind alleys not to follow.)

Neither was it a case of performing a well-planned set of experiments, starting from the Ciba recommendations, to find a working formula. Dr Skovmand wrote: "Based on our [earlier] tests we can make some good guesses as to what the formulation should be". One cannot separate the test recipes from the experimental results. Different recipes were bioassayed by Dr. Skovmand in experiments paid for by MVF. From this work, Dr Skovmand knew which were the more promising recipies. That knowledge was a trade secret of MVF.

¹ Quoting Laddie J in *Ocular Science v Aspect Vision Care* [1997] RPC 289, 359.

UK COURT OF APPEAL AWARDS DAMAGES FOR MISUSE OF TRADE SECRET ON EQUAL TERMS WITH PATENT INFRINGEMENT (CONT/...)

What is a trade secret?

There are three prerequisite elements to an action based on breach of confidence²:

1

The information must have the necessary quality of confidence about it.

2

It must have been communicated in circumstances importing an obligation of confidence.

3

There must have been an unauthorised use of the information to the detriment of the party communicating it.

The “necessary quality of confidence” is simply expressed in terms of what the information is not. It “must not be something which is public property and public knowledge.”³

What is not a trade secret?

An employee is entitled to use for his or her own benefit or future employer his own skill, knowledge and experience even if it was learned in the course of the relationship (the Judge in *MVF v Bestnet* expressed doubt as to whether this approach applies to all consultants but did not have to decide on this).

A customer list is normally a trade secret, but in the absence of special circumstances, an ex-employee is not generally restricted from canvassing or doing business with customers of his or her former employer.

Chemical formulae or designs or special methods of construction are typically considered trade secrets, although an employee’s recollection of instructions imparted to him in confidence during his employment (which he is not free to divulge during his employment) are not necessarily trade secrets that he cannot use after employment. An example might be a source of a key material, where the source is confidential to the employee but he may be free to obtain the material from the same source when no longer employed.⁴

There are three elements to consider:

1

The information must be information the release of which the owner reasonably believes would cause him injury or be of advantage to rivals;

2

The owner must reasonably believe it is confidential and not already in the public domain;

3

The information must be judged in the light of the particular industry or trade concerned.

Because there was not written contract, the Court had to consider what may be protected by an implied term of confidentiality. The factors to be considered were:

- The nature of the employment, e.g. whether the employee is in a position to habitually handle information he or she knows to be of a sensitive nature;
- The nature of the information and whether it is a trade secret or of such a highly confidential nature as to be accorded the same protection as a trade secret;
- Whether the employer impressed on the employee the confidentiality of the information (beyond merely telling the employee that certain information is confidential, what is relevant is the attitude of the employer to the information);
- whether the information can easily be isolated from other information (his “stock of knowledge, skill and experience”) that the employee is free to use (i.e. separable from the skill acquired by the employee in the course of employment).



Comment

There are many take-away messages from this case.

The first, and most obvious, is to engage consultants in writing. A written contract is not necessary to establish confidentiality (and indeed, merely marking a document "confidential" can be quite sufficient), but with a written contract, it is not necessary for the court to determine just what are the implied terms and it may be possible to include a non-compete clause or restrictive covenant to gain more protection when the employment ends.

A second clear message is how to handle confidential information. Merely telling employees that it is confidential is not enough. Taking steps to remind them explicitly that certain information is a trade secret, and limiting dissemination of information can not only deter employees from handling it too freely or walking away with it, but can help to establish that it is in fact a trade secret (and that its owner believes it to be such).

Finally, there is a message for the patent-versus-trade secret dilemma. If there is an invention that can be patented with meaningful claim scope, infringement is absolute and any use of the invention is an infringement subject to damages on a lost-profits basis. But if not, and there is a likelihood of designing around the claims, be aware that employees and consultants are free to leave your service and use the published information to compete with impunity. Knowing the state of the art before filing a patent application and making an informed judgement on the likelihood of obtaining meaningful protection is important before deciding on the right strategy.

². *Coco v A.N.Clark (Engineers)* [1969] RPC 41,47

³. *Saltman Engineering v Campbell Engineering* (1948) 65 RPC 203, 215

⁴. *E Worsley v Cooper* [1939] 1 All ER 290

EPO GUIDELINES ON SOFTWARE CLAIMS



By Alvin Lam

The EPO Guidelines are the main resource used by EPO examiners for guidance in the examination process. A new section (F-IV, 3.9) is being added in November to the chapter on formal requirements of claims, setting out explicit examples of acceptable kinds of claims directed to computer-implemented inventions (“CII”).

This new section aims to codify a typical acceptable structure and formulation for claims related to CII, appreciating that differing formulations will be assessed on a case-by-case basis. The new Guidelines suggest that the claims related to CII start with a method claim, followed by a respective pseudo-independent claim in the other categories (e.g. apparatus/device/system, computer program product, and computer-readable medium/data carrier) that merely reference the method claim. Examiners can then start with the method claim when assessing novelty and inventive step, and efficiently conclude that the subject-matter of the other corresponding claims in the set is novel and inventive as well.

The suggested formulation is relatively concise for software inventions in which all the method steps can be carried out by one or more generic data-processing means¹. A set of exemplary claim formulations in such a case includes:

1. A computer-implemented method comprising steps A, B, ...
or: A method carried out by a computer comprising steps A, B, ...
2. A data-processing apparatus/device/system comprising means for² carrying out the steps of the method of claim 1.
or: A data-processing apparatus/device/system comprising a processor adapted/configured to perform the method of claim 1.
3. A computer program product comprising instructions which, when the program is executed by a computer, cause the computer to carry out the steps of the method of claim 1.
4. A computer-readable storage medium comprising instructions which, when executed by a computer, cause the computer to carry out the steps of the method of claim 1.
or: A computer-readable data carrier having stored thereon the computer program product of claim 3.

¹ Be mindful to avoid reciting a list of method steps that may be considered to relate to excluded subject-matter (e.g. business or administrative, non-technical in nature), thus deemed straightforward for a skilled person (i.e. a programmer) to implement on generic data-processing means.

² Under European practice, “means for” is generally interpreted as “means adapted/configured to” in the data-processing/computer program field. In *Qualcomm v Nokia* [2008] EWHC 329 (Pat) the word “for” was interpreted as “suitable for” the stated function, with a caveat over rigidly codifying the meaning of particular words.

³ In this example, the device claim may make reference to method claim 1, since it is clear how means for executing this method are to be implemented.

⁴ For European applications, excess claims fees are calculated on the basis of the claims as filed. For PCT applications entering the EP regional phase, restructuring and reduction of the original claim set can be carried out after regional phase entry. A deadline will be subsequently set by the EPO to file amended claims that will form the basis for substantive examination and calculation of any excess claims fees.



Particular considerations are necessary where the method steps are not fully performed by the computer and require specific technical means and/or require additional technical devices as essential features. In such cases, the claim formulations may require explicit definition of the essential features for executing the method, as well as their interactions:

1. A method carried out by a device, comprising:
 - step 0 **by special technical means**,
 - steps A, B, ...
2. A device comprising **special technical means** and means adapted to execute the steps of the method of claim 1³.
3. A computer program product comprising instructions to **cause the device of claim 2** to carry out the steps of the method of claim 1.
4. A computer-readable medium having stored thereon the computer program product of claim 3.

Multiple-dependencies are allowed under European practice, so the suggested formulations can be adapted to refer back to "the method of any one of claims 1 to n". This is a particularly effective way to reduce the number of claims in an EP application, bearing in mind that heavy fees are levied by the EPO for each claim over¹⁵⁴.



Comment

Whereas these guidelines do no more than summarize long-established practice, adopting the above structure and formulation when drafting claims for computer implemented inventions before the EPO should help to avoid a number of formal issues and focus the examiner's attention on the underlying technical merit.

At Jenkins, instead of the concise formulation 2, we may well recommend presenting a truly dependent claim if there is no other independent apparatus claim. One reason is that often in writing an independent claim, one notices some nuance of meaning not apparent from the method claim (e.g. whether all the steps are necessarily carried out by the same device) and one adjusts the claim language, thereby providing two independent claims of slightly different scope, one or other of which may encompass a particular infringing scenario. This is particularly true in the second set above, in which there is some special technical means in some part of the apparatus or device. If adopting formulation 3 or 4, it is well worth pausing to consider whether the steps of the method may be separated into transmitter/receiver parts or client/server parts or the like.

Formulation 4 (a so-called Beauregard claim) is going out of fashion along with CD-ROMs and other physical data media and is in any case subsumed within formulation 3.

For these reasons, we recommend the following as a preferred strategy (subject to incurring costs for claims in excess of 15):

- Independent method claim(s) +
- Independent apparatus/device claims to the transmitter/receiver or client/server or other parts +
- Pseudo-dependent claim(s) of formulation 3.



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