



→ Intellectual Property Law Update

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From time to time the courts make decisions which mean that businesses have to take stock and think about changing the way they do things.

One such decision was recently made by the courts in relation to the use by a business of a competitor's registered trade marks in comparative advertising. Another relates to the use by businesses advertising online of a competitor's registered trade marks as AdWords (or "keywords").

This year has also seen the first reported case of an award of compensation under the Patents Act 1977 to employees who were instrumental in the development of a successful invention. We are therefore pleased to bring you this IP update which summarises the changes that have occurred in these evolving areas of law.

We would also like to take this opportunity to alert those third sector clients among you to the recent removal of the exemptions relating to the playing of music recordings in public, something that may have gone unnoticed amidst all the recent political upheaval.

So, all in all, a bit of light reading for your summer holidays! If you require any further information about any of the articles, please contact a member of the Cardiff IP team.

Best Wishes,



Ceri Delemore
Partner

02920 391 712
ceri.delemore@geldards.com

Michael Lindsey
Partner

02920 391 740
michael.lindsey@geldards.com





➔ Compare If You Dare!

Comparative advertising just got a lot riskier following the European Court of Justice and Court of Appeal Decisions in **L’Oreal v. Bellure**. Intellectual property partner and trade mark specialist Michael Lindsey explains.

Comparative advertising is a popular way of promoting goods. In these adverts, lesser known products are favourably compared to well known brands in order to promote sales of the lesser known product. Doing so was thought to be fine, so long as the comparisons were accurate and fair. However, that is no longer necessarily the case.

Following the L’Oreal decisions, it is clear that great care needs to be taken by anyone wanting to run a comparative advertisement. Put simply, it may now be unlawful to tell the truth.

Here is how...

The Comparative Advertising Directive

Under the European Community Comparative Advertising Directive (“CAD”), a comparative advertisement is allowed, provided it complies with all of the conditions of CAD. These include requirements that the comparative advertisement must not:

- ➔ take unfair advantage of the reputation of a registered trade mark;
- ➔ present goods as imitations or replicas of goods bearing a registered trade mark.

Presenting Goods As Imitations Or Replicas

Taking the second of these requirements first, L’Oreal says that the requirement not to present goods as imitations or replicas of goods bearing a registered trade

mark, is breached by someone who lawfully makes a product with all the essential characteristics of a well-known branded product, and truthfully tells the public that this is the case.

So for example, a completely truthful claim that: *“Geldards diet cola tastes the same as Coke Zero®, and contains no more calories”*, amounts to saying that our diet cola is an “imitation or replica” of Coke Zero for the purposes of CAD.

As a consequence, the statement would fall outside the conditions of CAD, and will infringe the Coke Zero® trade mark. This part of L’Oreal does nothing less than stop traders from telling the public the truth about the qualities of their lawfully made products.

This means that great care needs to be taken with any comparative advertisements that claim a product to be the “same as” another, or to have a particular key characteristic that corresponds to that present in a famous brand (in L’Oreal it was the smells of cheap perfumes said to correspond with the smells of named luxury brands).

Taking Unfair Advantage

A further risk for advertisers arising from L’Oreal is, perhaps, even more far reaching. This flows from the fact that the purpose of a lot of comparative advertisements is to show a lesser known product in a favourable light, by comparing it with a famous brand, and in particular claiming that it has certain qualities which match those for which that famous brand is particularly renowned.

An advert which does this now runs the risk of falling foul of the other CAD prohibition set out above, which protects registered trade marks with a reputation by preventing an “unfair advantage” being taken of that reputation. ▶





L’Oreal makes it clear that an unfair advantage will be taken where the use of the well known trade mark in a comparative advertisement results in a “transfer of the image” of that mark, or a “transfer of the characteristics which [that mark] projects”, to the goods being compared with it.

Any attempt to benefit from the “power of attraction... reputation...and prestige” of a well known mark, when comparing a product with it, amounts to taking an unfair advantage.

This, though, is surely one of the main points of comparative advertising! Businesses invariably seek to compare the qualities of their lesser known products with famous brands, and especially those with a reputation for the particular qualities being compared.

If I make a car which is as safe as a Volvo®, I may want to publicise this fact by comparing the safety of my car with a Volvo®, because of the significant reputation which Volvo® cars have for safety.

Certainly, if my car is not as safe as a Volvo®, then making such a claim should be unlawful. But if my car is as safe as a Volvo®, I am now at risk if I tell that truth - as I am likely to be found to be taking a “free-ride” on the power of attraction and reputation of the Volvo® brand in order to promote the safety of my car.

On the basis of the L’Oreal decision, I will not be able to publicise the truth in this way, even though no-one would be confused and no harm would be done to the image of the Volvo® mark.

In Conclusion

So the watchword for comparative advertisers is “beware”. The good news for famous brand owners, of course, is that L’Oreal has potentially given them a greater armoury with which to stop others from using their trade marks in order to promote competing products.

In particular, famous brand owners may be able to prevent competitors from using those famous brands in advertisements in order to identify the brand owner’s genuine branded goods so that competitors can make completely truthful comparisons between those goods and the competitor’s goods.

Some, like the judge who delivered the judgement in L’Oreal, believe this to be an unacceptable restraint on freedom of speech, which ultimately harms consumers who are thereby denied access to accurate and truthful information. But the famous brand owners aren’t complaining and would-be comparative advertisers therefore need to be on their guard. **G**



Michael Lindsey

Partner

02920 391 740

michael.lindsey@geldards.com





➔ Employee Inventions: Claims For Compensation Under The Patents Act 1977

If an employee makes an invention that is of “outstanding benefit” to his or her employer, there has always been a right under the Patents Act 1977 for the employee to claim compensation from the employer. However, up until this year, there was no reported court case of such a claim succeeding. In this article, we summarise the decision in ***Kelly & Chiu v. GE Healthcare Limited*** and take a look at how the compensation was calculated.

Under the Patents Act 1977 (the “Act”), any invention made by an employee in the course of his/her normal duties, where carrying out those duties would normally give rise to inventions, belongs to the employer.

However, if the employer patents the invention and either the patent or the invention is of “outstanding benefit” to the employer, the inventor employee can claim compensation to give him/her a fair share of the benefits that the employer has derived from the patent/invention.

Until this year, there was no reported court case of an employee succeeding with such a claim for compensation, due to the requirement that the patent/invention must be of outstanding benefit to the employer.

However, earlier this year, two inventor employees successfully claimed compensation under the Act.

The Facts Of The Case

Dr Kelly and Dr Chiu were both employed as research scientists by Amersham, which was later acquired by GE Healthcare. They both contributed to the development of a radio-active imaging agent known as Myoview which was protected by a family of patents.

The court agreed that the patents were of outstanding benefit to GE Healthcare to the tune of around £50 million, and awarded Dr Kelly (the more senior employee) £1 million (2%) and Dr Chiu £500,000 (1%).

However, before employers panic at the prospect of having to pay out millions to any employee responsible for a patented invention, the court’s decision was based on the specific circumstances of the case so is unlikely to open the flood gates for compensation awards being granted.

Most employee inventors will still struggle to show that the patent/invention has been of outstanding benefit to the employer.

Outstanding Benefit

The court clarified that “outstanding benefit” did not just mean significant or substantial - it meant something special or extraordinary, more than would normally be expected to arise from the employee’s duties. ▶





In deciding whether a patent was of outstanding benefit to an employer, it was useful to compare what the employer's position was with the benefit of the patent and what it would have been if no patent had been granted.

In this case, the Myoview patents had enabled Amersham to protect its business against generic competition, resulting in higher sales and prices than it would have been able to obtain had it faced generic competition, and this had been critical for Amersham.

In addition, the patented Myoview was a major factor in enabling Amersham to achieve corporate deals which in turn enabled it to become a significant player in the market.

These benefits were far beyond anything that could normally be expected from the type of work that Dr Kelly and Dr Chiu were doing.

The Nature Of The Invention

Dr Kelly and Dr Chiu were also helped by the fact that the invention was in the medical field, where the product was sold to medical professionals on the basis of the patented advantages.

Inventors in other fields, where it may be easier to circumvent a patent or where the success of a product depends on non-patented factors, such as product design or marketing, are still likely to find it difficult to show that the patent/invention is of outstanding benefit.

Calculation Of Compensation

In deciding what amount of compensation will secure a just and fair reward to the inventor/employee, the court

must take into account all the relevant circumstances, including certain matters set out in the Act.

In deciding that awards of £1 million for Dr Kelly and £500,000 for Dr Chiu would be just and fair, the court took into account:

- ➔ the nature of their duties, pay and any other advantages - both employees were paid within the normal industry rate band for the work they did;
- ➔ the effort and skill they had contributed - both employees had contributed a high level of effort and skill;
- ➔ whether other people contributed to the invention - although other employees had worked on the research project which gave rise to the invention, other than Dr Kelly and Dr Chiu it was not possible to single out any other individual who had contributed significantly to the invention;
- ➔ the employer's contribution to the invention - the invention depended significantly on Amersham's contribution. Success was only possible because of the significant investment by Amersham and Amersham had taken all the risks.

Based on the above factors, the court decided in this case that the employees' fair share of the benefit was towards the bottom of the scale – hence the awards to the employees of, respectively, 2% and 1% of the total benefit to Amersham.

Things To Bear In Mind

- ➔ Bear in mind possible liability to pay compensation for employee inventions when buying a business. ▶





In this case, the invention was created when the employees worked for Amersham, but liability to pay the compensation transferred to GE Healthcare when it subsequently purchased Amersham's healthcare business.

- ➔ Remember that the right to compensation under the Act only applies to employees. An external inventor who has assigned all his/her rights to the invention to a company has no claim against that company.
- ➔ Consider setting up a company reward scheme for employee inventors, as employees who feel rewarded for their invention may be less likely to bring a claim for compensation under the Act. **G**



Karen Collins
Senior Associate

02920 391 707
karen.collins@geldards.com





→ Calling All Not-For-Profit Organisations That Play Recorded Music In Public!

Up until recently, charitable, not-for-profit and other third sector organisations could play recorded music in public without having to pay for a licence to do so. The position has now changed and all such organisations need to get to grips with the new regime. In this article we summarise the changes that have occurred.

Following a consultation last year, the Government announced the removal of the music licensing exemptions under the Copyright, Designs & Patents Act 1988 (the "Act") for charitable, not-for-profit and other third sector organisations playing recorded music in public.

These changes took effect on 1 April 2010 and bring the UK in to line with the rest of Europe. It is estimated that the total impact across the whole of the not-for-profit sector will be £20 million.

Following the Government's announcement, PPL, the UK collecting society which licences recorded music in the UK on behalf of its 42,000 performers and 5,000 record companies, stated that it intends to develop a joint licensing scheme with PRS for Music (an organisation which already licences third sector organisations in respect of the underlying musical work and lyrics in recorded music) to administer the new regime.

The use of recorded music in NHS hospital wards, in

religious services, for domestic use in care homes and in medical treatments will not be affected by the changes.

So What Has Changed?

Under the Act, anyone who plays recorded music in public is required to obtain a licence both from PPL (in respect of the commercially released recorded music) and from PRS for Music (in respect of the underlying musical work and lyrics).

Historically, third sector organisations were granted exemption from the requirement to obtain a licence for the recorded music from PPL (although no such exemption existed in respect of the underlying musical work).

As a result of the changes introduced on 1 April 2010, third sector organisations are now required to obtain licences for both elements of publicly performed recorded music.

What Actually Constitutes The Playing Of Music In Public?

The definition of public performance under the Act is widely drafted to extend to any playing of music outside of the domestic circle or home life of the audience.

This means, for example, that even where a performance is being given to members of a specific group, a public performance will have taken place.

Previous court decisions have also made it clear that none of the following factors will mean that a public performance has not taken place:





- the nature of the premises or the audience (e.g. the playing of a CD or radio in a small office - even if such office was only accessible to staff);
- whether admission is free or conditional upon payment of an annual subscription;
- whether the audience is limited to members of a club;
- whether the performers are paid or unpaid.

How Is The New Joint Licence Arrangement Likely To Work?

The joint licensing system that it is anticipated that PPL and PRS for Music will run for the third sector is likely to be a simplified scheme, since organisations will only have one contact point to deal with and one license fee to pay. The system will also benefit from PRS for Music's existing experience in licensing this sector.

According to press releases issued by PPL, it wishes to ensure that the cost burden for small charitable organisations and premises is kept to a minimum. Although the exact rate is yet to be confirmed, typically small commercial organisations are likely to pay between £54 and £108 for background music for a year.


PPL has also indicated that it will follow the PRS for Music approach (adopted in July 2009) in setting up a code of practice and independent complaints mechanism to deal with those occasions when disagreements may occur.

PRS for Music has confirmed that they will waive any charges that third sector organisations may have failed to pay to them for previous years, assuming that the organisation in question hasn't previously contacted them about obtaining a licence.

When Will The Changes Have Effect?

The changes will come into effect once the details of the joint scheme between PPL and PRS for Music have been agreed. As at the date of writing, no date has been finalised.

However, as a first step, charitable organisations are recommended to contact PPL at ppo@ppluk.com or on 020 7534 1000. PPL will then send out Form 67 which will collect certain information on the charitable organisation and the uses they will make of the music so that PPL can then contact the organisation again once the scheme has been finalised.

In addition, to the extent that a charitable organisation using music does not already have a licence with PRS for Music, it is recommended that the organisation also contacts PRS for Music on 0845 309 3090 or at musiclicence@prsformusic.com. 



Lydia Fairfax
Associate

02920 391 720
lydia.fairfax@geldards.com





→ Keyword Advertising: Is Your Business Taking A Risk?

These days many businesses use keyword advertising services, such as Google's AdWords, to try to promote their goods and services online. In order to generate as much web-traffic as possible, businesses will often choose as their keywords registered trade marks relating to well-known products or services similar to their own. But is it safe to do so or is could the advertiser end up facing a claim of trade mark infringement? This article summarises the risks involved.

In recent years, it has become common practice for businesses to use keyword advertising to promote online sales of their goods and services. Essentially, keyword advertising involves "purchasing" from a search engine provider, such as Google, words or phrases (known as "keywords") which relate to the goods or services offered by your business.

Subsequently, each time a person enters one of your keywords into the search engine, an advert for your business will appear, with a link to your website. A fee is usually paid to the search engine provider each time a person "clicks through" to your website.

Clearly, the best keywords will be those words and phrases most likely to be used by potential customers when searching for particular products or services online. These may be generic words, such as "wide screen tvs" or "holiday cottages in Wales".

However, potential customers may also use well known trade marks to direct their searches (such as "Interflora" if they wish to purchase of flowers online). It is therefore tempting for businesses to choose as keywords the well-known registered trade marks of competitors.

Recent Court Decisions

The problem with doing so, however, is that recent EU court decisions have clarified that this may result in trade mark infringement and that the people who are at most risk are the businesses doing the advertising, rather than the likes of Google.

Broadly speaking, the position is that trade mark infringement may occur where it is not clear to the average internet user from the sponsored advertisement whether or not the goods or services advertised originate from the owner of the registered trade mark.

Whether or not this is clear will be assessed by the courts on a case by case basis. It is also worth noting that it is not necessary for a business to use the trade mark in the advert itself to be guilty of infringement - use as a keyword is sufficient.

Misspellings Of Trade Marks

So, think carefully when selecting keywords and in particular think twice about using other people's registered trade marks. Also, do not think that you can avoid the risk by using a variant on or a misspelling of a registered trade mark as this could still be an infringement.

If a trade mark has a significant reputation, there is also a possibility that using it as a keyword in relation to ▶






completely different goods or services to those that you sell may still infringe (it is hoped that the position will be clarified by the courts later this year).

Possible Defences

There are some possible defences to the use of registered trade marks as keywords (such as where the advertiser is selling second hand goods which have been put on the market by the trade mark owner) but it is advisable to seek legal advice about these before running the risk.

Owners Of Well Known Trade Marks

And what if you are the owner of a registered trade mark looking to protect your mark?

Regularly checking the sponsored links that are generated if you type your trade mark into an internet search engine will enable you to establish if a competitor is using your registered trade mark as a key word. You should then seek legal advice to see if you can do anything about it. 



Owen Evans
Solicitor

02920 391 850
owen.evans@geldards.com

