<table>
<thead>
<tr>
<th>CONTENTS</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sydney: Injunctions Ahoy! Piracy Targeted by New Website Blocking Laws in Australia</td>
<td>5</td>
</tr>
<tr>
<td>This article considers the application and utility of recent amendments to the Copyright Act 1958 (Cth) allowing copyright owners to apply for injunctions against internet service providers in order to disable user access to websites hosting infringing content.</td>
<td></td>
</tr>
<tr>
<td>Prague: The CJEU's new interpretation of communication to the public under the InfoSoc Directive</td>
<td>12</td>
</tr>
<tr>
<td>On 14 June 2017, the Court of Justice of the European Union handed down its long-awaited decision in <em>Stichting Brein v Ziggo BV and XS4ALL Internet BV</em>. The Court ruled that the operators of an unlicensed online platform, such as The Pirate Bay, could potentially be held jointly liable with the users of such platform for copyright infringement.</td>
<td></td>
</tr>
<tr>
<td>Düsseldorf: Digital Exhaustion – Is there a second hand market for e-books, audio and video files or games?</td>
<td>14</td>
</tr>
<tr>
<td>A new CJEU reference has the potential to challenge established business concepts on digital sales markets. The reference of the Court of The Hague asks the CJEU for a preliminary ruling on the interpretation of the InfoSoc Directive and raises the question of whether the concept of exhaustion under the InfoSoc Directive is linked only to the distribution of the physical medium containing the work.</td>
<td></td>
</tr>
<tr>
<td>Barcelona: Approval of Royal Decree-Law 12/2017, of 3 July 2017, amending the Copyright Act and regulating the new system of fair compensation for private copying</td>
<td>17</td>
</tr>
<tr>
<td>This article briefly sets out the most relevant aspects of Decree-Law 12/2017, which establishes a system of Fair Compensation for private copying in Spain that goes back to its roots, no longer being financed by the General State Budget.</td>
<td></td>
</tr>
<tr>
<td>Barcelona: The Judgment from the Supreme Court of the United Kingdom on the Alimta case dated 12 July 2017</td>
<td>20</td>
</tr>
<tr>
<td>In the <em>Alimta</em> case, the Supreme Court of the United Kingdom reformulated the doctrine of equivalents applied by the Courts of four different European countries: the UK, France, Italy and Spain.</td>
<td></td>
</tr>
</tbody>
</table>
Milan: Inventions and Independent Contractors: Evolution of Law
In Italy, the recently enacted Law 81 of 22 May 2017, specifically provides rules to govern inventions by free-lance workers.

Düsseldorf: The scope of duties where there exists an obligation to cease and desist: Recall of “RESCUE” products in Germany
In a recent judgment the German Federal Court of Justice held that the prohibition to distribute a product may entail the obligation to actively recall products already sold to retailers.

Moscow: Parallel imports in the EAEU
The EAEU is considering introducing the international principle of exhaustion of IP rights in relation to certain goods.

Amsterdam: EU Trade Secrets Directive
In July 2016, the European Parliament and the Council of the European Union adopted the Trade Secrets Directive intended to harmonise the protection of trade secrets throughout the European Union.

Hong Kong: China Establishes its First Cyberspace Court in Hangzhou
China has approved a plan to set up its first cyberspace court in Hangzhou to hear internet and e-commerce related disputes by means of an online court system.

Acknowledgement

Contacts

Our International Network
15TH EDITION

With summer break coming to an end, the Clifford Chance Global IP team would like to present the 15th Edition of our Clifford Chance Global IP Newsletter. We hope to offer you some insight into what has been discussed in the field of IP over the past three months.

To start, our article on new website blocking laws in Australia analyses whether the new legislation will be an effective means for copyright owners to disable user access to websites hosting infringing content.

Looking to recent developments in European case law, the Newsletter will review the judgment of the CJEU which sets out the liability of unlicensed online platforms, such as “The Pirate Bay”, for copyright infringement and delineates the interpretation of communication to the public under Directive 2001/29/EC. With regard to the recent CJEU reference filed by the Court of The Hague, the Newsletter provides new insight into the concept of digital exhaustion and the digital consumer goods on a second hand market. In addition, we provide an update on the European Trade Secrets Directive.

Next, the Newsletter will turn to national legislative and case law updates in Member States across the EU. In Spain, we outline the most relevant aspects of Decree-Law 12/2017 establishing a system of Fair Compensation for private copying. In the UK, we look to the Eli Lilly v Actavis decision of the Supreme Court of the United Kingdom which reformulates the doctrine of equivalents applied by the Courts of four different European countries: the United Kingdom, France, Italy and Spain.

Next, we will analyse the new Italian regulations on inventions by freelance workers which put an end to the courts’ former practice of simply applying the provisions for subordinate employees by way of analogy.

The Newsletter will then examine a recent judgment of the German Federal Court of Justice holding that under unfair competition law an order to cease and desist also entails the obligation to actively recall infringing products already sold to retailers.

Referring to the problems due to parallel import, we will inform you on the pros and cons of introducing the international principle of exhaustion of IP rights in relation to certain goods in the Eurasian Economic Union.

Finally, we again look abroad at the latest IP trends in China. Our Newsletter finishes with a brief introduction of the new Cyberspace Court established in Hangzhou.

We hope you enjoy reading this 15th Edition and look forward to your feedback.

Your CC Global IP Team
SYDNEY
INJUNCTIONS AHOY! PIRACY TARGETED BY NEW WEBSITE BLOCKING LAWS IN AUSTRALIA

In June 2015, the Australian Commonwealth Parliament passed the Copyright Amendment (Online Infringement) Act 2015 (Cth) (“Amendment Act”), which incorporated amendments into the Copyright Act 1968 (Cth) (“Copyright Act”) allowing copyright owners to apply to the Federal Court of Australia for injunctions against internet service providers (“ISPs”) to disable user access to websites hosting infringing content. After enduring a largely uneventful first year of operation, the delivery of the first judgment considering the new provision on 15 December 2016 (a decision in favour of the copyright owners) has led to a recent flurry of applications for injunctions by members of the film, television and music industries. However, the ultimate utility of the legislation has been called into question, as numerous workarounds have been developed by hackers and members of the online community to bypass the ISPs’ blocking mechanisms, frustrating the object of the injunctive relief. This article considers what the courts have said copyright owners must demonstrate in order to be successful in obtaining injunctive relief, and then poses the question, is it really worth all the effort?

Background

Websites such as The Pirate Bay, KickAss Torrents and IsoHunt have long been the bane of the copyright owner, freely hosting and distributing pirated audio-visual material in breach of copyright, largely without sanction. However, the tides appear to be turning as recent amendments to Australia’s copyright laws have given copyright holders the right to seek injunctions from the Federal Court of Australia requiring ISPs to block access to websites hosting infringing content, in an effort to limit the proliferation of pirated material.

Key Issues

- New legislation and recent case law in Australia has demonstrated that courts are ready, willing and able to make orders requiring ISPs to block user access to websites whose purpose is to infringe, or to facilitate the infringement of, copyright.
- In order to obtain website blocking orders, copyrights owners must prove that a website located outside Australia is hosting content infringing its copyright and be willing to pay the compliance costs of the ISPs against whom the orders are sought.
- The utility of website blocking orders has been questioned due to the relative ease with which they can be circumvented, including through the establishment of mirror or proxy sites, or by use of a VPN.
Legislation

Section 115A of the Copyright Act provides:

(1) The Federal Court of Australia may, on application by the owner of a copyright, grant an injunction referred to in subsection (2) if the Court is satisfied that:

   (a) carriage service provider provides access to an online location outside Australia; and

   (b) the online location infringes, or facilitates an infringement of, the copyright; and

   (c) the primary purpose of the online location is to infringe, or to facilitate the infringement of, copyright (whether or not in Australia).

(2) The injunction is to require the carriage service provider to take reasonable steps to disable access to the online location.

    …

(5) In determining whether to grant the injunction, the Court may take the following matters into account:

   (a) the flagrancy of the infringement, or the flagrancy of the facilitation of the infringement, as referred to in paragraph (1)(c);

   (b) whether the online location makes available or contains directories, indexes or categories of the means to infringe, or facilitate an infringement of, copyright;

   (c) whether the owner or operator of the online location demonstrates a disregard for copyright generally;

   (d) whether access to the online location has been disabled by orders from any court of another country or territory on the ground of or related to copyright infringement;

   (e) whether disabling access to the online location is a proportionate response in the circumstances;

   (f) the impact on any person, or class of persons, likely to be affected by the grant of the injunction;

   (g) whether it is in the public interest to disable access to the online location;

   (h) whether the owner of the copyright complied with subsection (4);

   (i) any other remedies available under this Act;

   (j) any other matter prescribed by the regulations;

   (k) any other relevant matter.

The Revised Explanatory Memorandum accompanying the Amendment Act provides that “the Court granting an injunction would not create a presumption that the [ISP] has infringed copyright nor authorised the infringement of copyright.”
Case Law—Roadshow No 1

In Roadshow Films Pty Ltd v Telstra Corporation Ltd [2016] FCA 1503, Justice Nicholas granted injunctive relief to the owners of copyright for a number of motion pictures (including high-grossing blockbusters such as Spider-Man 2 and Jurassic World) and television programs (including ratings giants such as The Big Bang Theory and cult-favourites such as The Real Housewives of Melbourne). The copyright owners had brought proceedings against several major ISPs seeking orders that they take reasonable steps to disable access to a number of overseas-based websites that provided access to infringing material. In coming to the overall conclusion to substantively allow the relief sought, his Honour was required to consider a number of threshold issues when applying Section 115A, including:

(i) temporal issues (i.e. the timing of the alleged infringement/facilitation thereof);
(ii) scoping issues (i.e. whether the proposed blocking orders could be extended to mirror or proxy sites created to circumvent or frustrate the orders); and
(iii) costs issues (i.e. determining who should be required to pay the operational costs of complying with the orders).

(i) Temporal Issues

An issue arose where one of the websites in respect of which a blocking order was sought was taken offline at some point in time between the commencement and hearing of the two proceedings the subject of the Roadshow No 1 judgment. His Honour held that Section 115A did not require the Court to be satisfied, at the time of granting the injunction, that the relevant website was hosting infringing content. In this regard, his Honour stated:

“Too narrow a reading of the language used in s 115A(1) would deprive the section of much of its usefulness e.g. if it were construed so as to allow an operator to avoid an injunction simply by taking a website off-line temporarily for a period of days, weeks or months during the course of the relevant proceeding.”

(ii) Scoping Issues

With respect to the terms of relief sought, the copyright owners sought an order permitting them to unilaterally extend the scope of the proposed blocking order to domain names, IP addresses and URLs that were not specifically referred to in the originating application, by giving written notice to the ISPs and without any further order of the Court ("Proposed Scope Extension Order").

His Honour refused this relief, having concluded that the determination of whether the terms of any injunction should be varied to refer to additional domain names, IP addresses or URLs was a matter for the Court to determine in light of evidence. Whilst the copyright owners argued that the effect of such a finding would put them to excessive costs and inconvenience, his Honour was not convinced that this justified taking control of the scope of the orders away from the Court, considering that, in any event, in the case of a variation to an existing injunction, the Court may be willing to act on very little in the way of further evidence.

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(iii) Compliance Costs Issues

The copyright owners submitted that the ISPs should bear their own costs of complying with the website blocking orders, which was resisted by the ISPs. In respect of set-up costs associated with compliance, his Honour refused to make an order that those costs be paid for by the copyright owners, noting that:

“...given the legislative environment in which the [ISPs] have operated since the introduction of Section 115A, it is not merely desirable but, practically speaking, essential that [an ISP] possesses the technical capacity to comply with an injunction in the form agreed in these proceedings.”

However, his Honour was minded to allow the ISPs a nominal amount of AUD 50 (excluding goods and services tax) in respect of each Domain Name sought to be blocked, to be paid for by the copyright owners.

Case Law—Universal

In Universal Music Australia Pty Limited v TPG Internet Pty Ltd [2017] FCA 435, Justice Burley likewise made the website blocking orders sought by a different set of copyright owners who had commenced a proceeding in relation to “sound recordings of musical works” by major recording artists such as Justin Bieber, AC/DC, Taylor Swift and an Australian favourite, Guy Sebastian. In his determination in Universal, Burley J largely adopted and agreed with the observations and conclusions expressed by Nicholas J in Roadshow No 1. The only real matter of distinction between the judgments was Burley J’s consideration of the issue of who ought to pay the legal costs of the proceedings.

In this regard, in Roadshow No 1, Nicholas J made orders requiring the copyright owners to pay the ISPs costs “of and incidental to the preparation of evidence and written submissions, and the making of oral submissions, in relation to the [Proposed Scope Extension Order] and the issue of compliance costs (excluding set-up costs)”. In essence, the effect of the order was to require the copyright owners to pay the other side’s legal costs in respect of only the matters which they unsuccessfully contested.

At first blush, Burley J’s costs orders in Universal appear similar (i.e. limited to the costs of the matters the copyright owners unsuccessfully contested—being costs “of and incidental to the preparation of evidence and written submissions and the making of oral submissions, in relation to the issue of compliance costs (excluding set-up costs)”).

However, the point of differentiation can be seen where Burley J cautioned against copyright owners attempting to adopt proposed orders dissimilar to those granted in Roadshow No 1 and (as a result of his Honour’s judgment) in Universal. This portent arose in circumstances where the ISPs submitted they should be entitled to the entirety of their costs because the form of orders initially proposed by the copyright owners was substantially different to that which was presented to the Court at the hearing, and it was only after extensive negotiations that the copyright owners agreed to adopt the form eventually sought, which largely mimicked the orders granted in Roadshow No 1. His Honour reasoned that “the scheme of the legislation is such that

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3 Federal Court of Australia Proceeding No NSD545/2016.
it is in the parties’ mutual interest to discuss and, if possible, agree to suitable orders”. His Honour noted that proposing untried or untested orders (which are likely to involve extensive costs being incurred by the parties in negotiations) may justify an outcome that the copyright owners pay all the ISPs legal costs (or part thereof)—that is, costs in addition to the costs of just the matters which the copyright owners unsuccessfully contested. Ultimately, however, his Honour was not minded to make this more punitive order for legal costs in Universal, on the basis that the matter had been brought on for hearing before Nicholas J’s judgment in Roadshow No 1 had been handed down (i.e. such that the protracted negotiations referred to by the ISPs were affected by the copyright owners not having access to the orders as finally made in Roadshow No 1).

Is it worth the effort?

The Australian Broadcasting Corporation (Australia’s state-owned national broadcaster) (“ABC”) has reported on the questionable efficacy of website blocking orders, commenting that “it is relatively simple and cheap for users to get around the blocks using a Virtual Private Network (VPN)”, which is perfectly legal. Against this factual backdrop, industry commentators have been quoted as likening the Roadshow No 1 case to a “publicity stunt” to scare people off using file sharing sites. Foxtel, Australia’s major pay television provider, implicitly agreed in part, choosing to highlight the educative value of the Roadshow No 1 judgment in describing it as “a major step in both directly combating piracy and educating the public that accessing content through these sites is not OK – in fact it is theft”. Elsewhere, a Foxtel spokesperson was quoted as follows:

“Foxtel believes that the new site blocking regime is an effective measure in the fight to prevent international operators illegitimately profiting from the creative endeavours of others. We trust that Australians recognise that there are increasing numbers of ways to access content in a timely manner and at reasonable prices, which ensure that revenue goes back to the people who create and invest in original ideas.”

The evidence (both lay and expert) required to be adduced in respect of both Roadshow No 1 and Universal was fairly extensive. Nearly all parties were represented by both senior and junior counsel as well as experienced commercial litigators. In light of the ease at which website blocking orders can be circumvented, this begs the question as to whether the costs incurred in obtaining such orders is at all justified, particularly when additional costs are required to be incurred when approaching the Court to extend the scope of the orders to capture additional Domain Names (which occurred, for example, in June 2017 in respect of one of the proceedings the subject of the Roadshow No 1 judgment).

In addition, it is important to note that the respective copyright owners’ claims to ownership of the relevant copyright were not the subject of challenge by any of the ISPs in Roadshow No 1 or Universal. If this had not been the case, the parties’ legal costs could have been much higher, given that proof of ownership and subsistence of copyright is one of the threshold issues in relation to which the Court must be satisfied before making a website blocking order.
Notwithstanding these issues, it is clear that copyright owners have not been discouraged, with Roadshow and Foxtel instituting fresh proceedings seeking website blocking orders on 24 February 2017\(^4\) and 4 May 2017 respectively.\(^5\) With the roadmaps now laid out in the Roadshow No 1 and Universal test cases, the manner in which the new proceedings have been conducted appears to be indicative of an emerging trend that copyright owners will seek to streamline applications for website blocking orders with a view to avoiding extensive court appearances and cutting legal costs. Indeed, Nicholas J heard the new Roadshow matter in half-a-day on 10 May 2017 (i.e. as opposed to the two hearing days which each of Roadshow No 1 and Universal occupied). His Honour delivered judgment granting the relief sought on 18 August 2017 in Roadshow Films Pty Ltd v Telstra Corporation Limited [2017] FCA 965.

In Roadshow No 2, Nicholas J noted that the respondents either: filed submitting appearances; did not appear; or, filed notices of address for service without otherwise appearing. In Foxtel, Burley J heard the application on 10 August 2017 and was content to make the orders sought at a case management hearing held just ten days after the substantive matter was heard.\(^6\) In each proceeding, and perhaps testament to the parties heeding Burley J’s warning about the consequences of failure to negotiate cooperatively, no order was made as to the parties’ legal costs.

Commenting on the recent decisions, Foxtel CEO Peter Tonagh issued a statement welcoming the judgments as “another critical step in combating online piracy, which continues to undermine Australia’s creative industry.” He went on to add:

“The Government’s passage of the site blocking legislation, and the Court’s continued willingness to impose site blocking orders, illustrates the gravity of the threat and the concern we should all have about protecting the hard work of the actors, writers, directors and production teams involved in creating the programming we all love. We will continue to do our part in shedding light on the seriousness of intellectual property theft, while simultaneously helping to ensure our content is available quickly, easily and at a price that suits their budgets.”

However, echoing the sentiments of the ABC in questioning the efficacy of these types of orders, a number of the domains listed in Roadshow No 2 and the Foxtel orders have already disappeared, with the URLs now redirecting to web hosting pages from a well-known internet domain registrar and web hosting company. Notwithstanding this, Lori Flesker, Executive Director of Creative Content Australia, was quoted as supporting the premise of website blocking orders, stating that “not only is there decreasing traffic to pirate sites but there is a subsequent increase in traffic to legal sites”. However, the impact in monetary terms to copyright owners is yet to be quantified.

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\(^4\) Federal Court of Australia Proceeding No NSD269/2017.

\(^5\) Federal Court of Australia Proceeding No NSD663/2017.

\(^6\) At the time of publication, Burley J had not published reasons for judgment and it remains unclear if, given the circumstances (namely, the apparent non-participation of the respondent parties in the proceeding), his Honour will do so.
Conclusion

The legislating of Section 115A represents a significant step forward in relation to the Australian Government’s efforts to combat piracy and protect copyright owners against infringement. The commercial benefit to copyright owners is obviously evident if the orders have the benefit of steering current or future potential pirates to legal sources. However, the impact of the legislation and related case law must (at least at this time) be viewed as primarily educative in nature, given the relative ease at which website blocking orders can be circumvented, as evidenced by the number of ‘how to’ YouTube videos on the topic. Indeed, the primary objective of education is highlighted by the fact that the delivery of Roadshow No 2 and Foxtel coincided with the launch of Australia’s biggest ever anti-piracy campaign, dubbed ‘The Price of Privacy’, led by Creative Content Australia. And what happens if the message is not received?

According to The Australian Financial Review, Roadshow has already indicated its next targets: Australia’s individual illegal downloaders.

Link Directory

PRAGUE
THE CJEU’S NEW INTERPRETATION OF COMMUNICATION TO THE PUBLIC UNDER THE INFOSOC DIRECTIVE

In *Stichting Brein v Ziggo BV and XS4ALL Internet BV* (“Pirate Bay”), the Court of Justice of the European Union (“CJEU”) has further developed its interpretation of the right of communication to the public within the meaning of Article 3(1) of Directive 2001/29/EC on the harmonisation of certain aspects of copyright and related rights in the information society (“InfoSoc Directive”). It follows from the *Pirate Bay* case that operators of online platforms could be held jointly and primarily liable together with users that upload copyright infringing content. The consequences of copyright infringement will be applied under the national law of EU Member States and could potentially include injunctions to block the domain names or IP addresses of infringing platforms.

**Legal Background**

The exclusive right of authors to authorise or prohibit communication of their copyright-protected works to the public is regulated by Article 3(1) of the InfoSoc Directive. It is settled case–law that the concept of “communication to the public” consists of mutually indispensable criteria, most notably “an act of communication” which must be directed to “a public”. First, a user makes an act of communication when he intervenes, in full knowledge of the consequences of his action, to give his customers access to a protected work. Second, the concept of “a public” refers to an indeterminate number of potential viewers and implies a fairly large number of people. Further, if the work is communicated by the same technical means as the initial communication, then there must be ‘a new public’. The CJEU continuously and extensively interprets and develops further criteria of communication to the public to ensure that intellectual property is afforded a high level of protection.

**GS Media and Filmspeler**

In *GS Media v Sanoma and others* (September 2016) (“GS Media”), the CJEU established a test of presumable knowledge that is based on profit-making intention. If a link to a copyright-protected work is posted for the purpose of making a profit, it can sufficiently be presumed that the person who posts that link has full knowledge that the link leads to a copyright protected work. In other words, if the person posts a link with a view of profit, that person is expected to carry out the necessary checks to assess whether the work has been posted lawfully.

**Key Issues**

- The position of IPR holders could be strengthened by the recent decision of the CJEU.
- Hosting providers could be considered primarily responsible for IPR infringements.
- Communication to the public under Directive 2001/29/EC includes indexing, categorization, deletion and filtering of files by the hosting provider.
Furthermore, in *Stichting Brein v Jack Frederik Wullems* (April 2017) ("Filmspeler") the CJEU expounded further on the notion of the indispensable intervention required to fulfil the conditions of a communication to the public. Accordingly, the CJEU held that an act of communication can be seen as a deliberate intervention by a provider, which has offered its users direct access to protected works and thus facilitated access to works which would otherwise be more difficult to locate.

**The Pirate Bay**

The 2017 *Pirate Bay* decision could be considered a landmark ruling which significantly enhances the possibilities for copyright owners to effectively fight copyright infringement on online platforms. In *Pirate Bay*, the Supreme Court of the Netherlands asked the CJEU a preliminary question to ascertain whether the concept of communication to the public also concerned operators of websites where no copyright protected works are held, but where a system is in place – on the online sharing platform called “The Pirate Bay” (peer-to-peer platform) – which indexes, filters, categorises and deletes the metadata of copyright-protected works.

In order to answer the preliminary question, the CJEU evaluated the previously mentioned case-law on communication to the public and extended its interpretation of the meaning with respect to the intervention of a user as arrived at in *Filmspeler*. The *Pirate Bay* case has consequently resulted in an act of communication by the operator of an online platform can be carried out merely by indexing, categorising, deleting or filtering copyright-infringing content.

Furthermore, it is not necessary to prove that the operator of the platform had actual knowledge of the copyright-infringing content. It can sufficiently be presumed that if a very large number of copyright infringing works can be found on the platform, then the hosting provider cannot be unaware of the infringing nature of the content.

Therefore, following the *Pirate Bay* test, operators of online platforms, including peer-to-peer platforms, can be held jointly and primarily liable for copyright infringement. For this to occur, (i) it is sufficient for the operator of the platform to provide an automatic function that enables the indexing, categorisation, deletion or filtering of copyright-infringing content, (ii) such conduct should be of a profit-making nature and (iii) the scale of the copyright-protected works on the platform should be sufficiently large.

**Conclusion**

Certain aspects of the 2017 decision in *Pirate Bay* are groundbreaking for copyright protection and are favourable to copyright holders in the battle against copyright infringement. The CJEU established that even where copyright-protected content is uploaded by users of hosting platforms, the operator of the platform can be held primarily and jointly liable with the user if (i) the operator/holder of the platform is making a profit, (ii) the scale of the infringing works on the platform is sufficient, and (iii) the operator is managing the platform in a way that indexes, filters, deletes or categorizes content.
DÜSSELDORF
DIGITAL EXHAUSTION – IS THERE A SECOND HAND MARKET FOR E-BOOKS, AUDIO AND VIDEO FILES OR GAMES?

Oracle v UsedSoft was the starting point for an ongoing discussion that could come to an end with one of the latest CJEU references that has the potential to challenge established business concepts on digital sales markets. The reference of the Court of The Hague asks the CJEU for a preliminary ruling on the interpretation of the InfoSoc Directive. It raises the question whether the concept of exhaustion under the InfoSoc Directive is solely linked to the distribution of the physical medium containing the work or whether other digital works (e.g. e-books) being sold without any temporal limitation can also be subject to the regulations on exhaustion.

Introduction

When the InfoSoc Directive was drafted, the development of the internet and the digital age could not be anticipated. Market shares of digital goods increased rapidly and streaming services and apps became reliable income generators. Then, five years ago, Oracle v UsedSoft rendered the standard that software sold in the European Union leads to the exhaustion of any distribution rights. A second hand market for software and software licenses was thus born. However, Oracle v UsedSoft left quite some room for discussion, not only regarding the scope of exhaustion, but also with respect to its application.

In fact, in Germany two main opinions arose. One group argued that the decision concerned forbids any analogy to digital products like e-books, audio and video files, or games. Alternatively, the opposition argues that the decision can apply to such foregoing digital products. Now, even five years after Oracle v UsedSoft, a lack of legal clarity still remains within the EU and finally, a new CJEU reference begs the question as to whether digital exhaustion under the InfoSoc Directive exists at all.

Key Issues

- Although the outcome of the decision cannot be predicted, assuming the affirmation of digital exhaustion by the CJEU, digital sales markets will require changes to current business concepts.
- Changes to the digital sales markets, such as new payment and business models in addition to the implementation of protective measures through blockchain or DRM should be on the radar of companies and ventures. The entities will want not only to be prepared for future developments, but also avoid gradual losses in market shares by the developments by competitors.

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7 Digital Exhaustion was only one of the topics that remained unclear under Oracle v UsedSoft along with multiple questions regarding the limits in scope, technical protection measures and contractual embodiment.
Legal Background

The InfoSoc Directive states in article 4 (2):

“The distribution right shall not be exhausted within the Community in respect of the original or copies of the work, except where the first sale or other transfer of ownership in the Community of that object is made by the right holder or with his consent.”

The crux of the matter is whether there is such thing as digital exhaustion under the InfoSoc Directive. Recitals 28 and 29 state that the right of communication to the public is, in contrast to the right of distribution, not subject to exhaustion as per Article 3 (3). It is, however, the key to online content and exploitation.

It is argued that the CJEU intended for the Software Directive to be lex specialis to the InfoSoc Directive, envisaging digital exhaustion only in relation to software and otherwise only applying to the tangible support of a work. Consequently, one might tend to deny the concept of exhaustion for digitally distributed goods. Indeed, for Germany, the Higher Regional Court of Hamm decided not to apply exhaustion with respect to the distribution rights on e-books:

“[T]he exhaustion principle is not applicable for the online transmission of copyrighted works. This is because exhaustion can only refer to a copy of the work, which is already embodied. In this context there is no room for an analogy.”

The reference of the Court of The Hague

The long-winded discussion of whether or not the InfoSoc Directive concerns principles of digital exhaustion can come to a quick end if the CJEU decides to expand UsedSoft to digital goods. Should this be the case, the decision could have even further-reaching consequences than UsedSoft originally had in 2012.

The proceedings before the Court of The Hague originally started with a preliminary injunction proceeding in Amsterdam against the e-book trading company Tom Kabinet. Tom Kabinet is a second-hand e-book platform that buys e-books for virtual credits which the users can then reinvest into “used” e-books with an additional payment of EUR 2.00 for each book. Quite obviously, Tom Kabinet's business model is based on the concept of exhaustion of the distribution right underlying copyright protection. The Court of Appeals of Amsterdam upheld this concept, but imposed regulations in order to prevent customers from illegally replicating e-books before selling them on the second hand market – hence giving Tom Kabinet the opportunity to continue its business.

Claudia Milbradt of Clifford Chance specialises in patent litigation, where she mainly handles injunction proceedings, invalidity proceedings and nullity actions. Her practice also covers patent licence agreements and the IP aspects of M&A transactions. She represented Hyundai in two patent infringement proceedings and a nullity action against Scania. One client sums up: “She is very experienced, realistic, prepares excellently for court appointments and fights for her client while remaining objective and proper.”

Presumably because both Amsterdam proceedings were based on preliminary injunctions, the courts did not refer the case and the underlying legal questions to the CJEU. Instead, the current question now at stake and being referred to the CJEU by the Court of The Hague goes straight to the point and in particular asks whether:

“the distribution right with respect to the original or copies of a work as referred to in Article 4 (2) of the InfoSoc Directive is exhausted in the Union when the first sale [...] in the Union is made by the right holder or with his consent?”

**Outlook**

Needless to say a CJEU decision is not expected before next year, and although the potential outcome cannot be foreseen, in the event digital exhaustion applies to digitally distributed works, a fundamental change in multiple industries is likely to become necessary. Despite speculation on the outcome, changes to the digital sales markets, such as new payment and business models should be on the agenda of companies and ventures to avoid gradual losses in market shares. Platforms for various digital goods will rise and strengthen competition throughout numerous areas as the outcome of the CJEU decision is likely to affect many sectors and industries.

Indeed, applying the concept of exhaustion could mean, for example, that producers of digital goods are limited in using technical protection measures to prevent illegal copies. Potential solutions can be hidden in the blockchain technology or modified DRM systems.

Ultimately, the issue of digital exhaustion could even become redundant since more and more streaming services and subscription models that undermine exhaustion are taking over market shares. By foregoing the process of buying and selling digital goods (e.g. in the music, video and gaming industry) digital exhaustion might be of lesser importance within the next few years. Whether subscription models would work for e-books might be a different story, but is within the realms of economic possibility.
BARCELONA
APPROVAL OF ROYAL DECREE-LAW 12/2017, OF 3 JULY 2017, AMENDING THE COPYRIGHT ACT AND REGULATING THE NEW SYSTEM OF FAIR COMPENSATION FOR PRIVATE COPYING

Background to Royal Decree-Law 12/2017

For those unfamiliar with Spanish regulations on copyright, the Spanish Copyright Act provides an exception in favour of users for making private copies (Article 31.2). To benefit from this exception users must pay the holders of the reproduction right fair compensation for the private copies that they may make (Article 25). This model of fair compensation for private copying (“Fair Compensation”) has been something of a legal “rollercoaster” over the years.

The obligation to pay Fair Compensation arose on the sale of equipment, devices or other material media regardless of the method of use. This led the Court of Justice of the European Union (“CJEU”) to conclude in its judgment of 21 October 2010 (case C-467/08)\(^{20}\) that the Spanish Fair Compensation model was inconsistent with European Law.\(^{21}\) This was namely because the model did not consider (i) the actual use made of concerned equipment, devices and/or other material media; or (ii) whether or not the user was a natural person (the only subjects entitled to make private copies).

Against this backdrop, the Spanish legislator approved Decree-Law 20/2011\(^{22}\) and Decree 1647/2012\(^{23}\). This established that Fair Compensation would be financed by the General State Budget. However, in its judgment of 9 June 2016 (case C-470/14)\(^{24}\) the CJEU concluded that this model contravened Directive 2001/29/EC.\(^{25}\)

As a result of the CJEU’s decision, the legislator urgently approved Royal Decree-Law 12/2017 (“Decree-Law 12/2017”). Following the guidelines set down by CJEU case law, Decree-Law 12/2017 establishes a model of Fair Compensation in Spain which reverts to the original model in that it will no longer be financed by the General State Budget.

Key Issues

Decree-Law 12/2017:

- Establishes a new model for Fair Compensation for private copying that is no longer financed by the General State Budget.
- Envisages a transitional regime that establishes a list of equipment, devices and media subject to payment of the Fair Compensation, as well as the amount to be paid for each.
- Sets out the scope of private copying, specifying that copies made using reproduction equipment, devices and material means for professional use only will, generally speaking, not be considered “private copies”.
- Envisages scenarios where parties may be (i) exempt from payment; and (ii) eligible for a refund of Fair Compensation.

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20 In reply to the request for a preliminary ruling issued by the Barcelona Court of Appeal (Section 15) in its Ruling of 15 September 2008 (Appeal no. 822/2007; Judge Rapporteur Mr Ignacio Sancho Gargallo).
21 Article 5.2 b) of Directive 2001/29/EC of the European Parliament and of the Council, of 22 May 2001, on the harmonisation of certain aspects of copyright and related rights in the information society (Official Journal of the European Communities of 22 June 2001, B 167/10). The CJEU found as follows: “the indiscriminate application of the private copying levy, in particular with respect to digital reproduction equipment, devices and media not made available to private users and clearly reserved for uses other than private copying, is incompatible with Directive 2001/29”.
22 Decree-Law 20/2011, of 30 December, on urgent budgetary, tax and financial measures to remedy the public deficit (Official State Gazette of 31 December 2011).
23 Royal Decree 1657/2012, of 7 December, governing the procedure for the payment of fair compensation for private copying financed by the State Budget (Official State Gazette of 8 December 2012).
24 Said judgment replied to the preliminary questions submitted by the Third Chamber of the Spanish Supreme Court in a Ruling dated 10 September 2014.
25 In particular, the CJEU found that “a scheme for fair compensation for private copying which...is financed from the General State Budget in such a way that it is not possible to ensure that the cost of that compensation is borne by the users of private copies” contravenes Directive 2001/29/EC.
**Relevant aspects of Decree-Law 12/2017**

Decree-Law 12/2017 entered into force on 1 August 2017 and replaces the previous Fair Compensation model financed using the General State Budget. The new model is based on the payment of Fair Compensation by those companies that manufacture reproduction equipment, devices and media in Spain[^26], as well as by the acquirers of the same outside of Spain, for commercial distribution or use within the Spanish territory[^27].

The beneficiaries of Fair Compensation are the authors of works, together with publishers, producers of sound or video recordings and the artists who perform them, in the terms envisaged in Decree-Law 12/2017. However, Decree-Law 12/2017 establishes that the collecting entities must incorporate a legal entity, no later than 1 November 2017 which, in accordance with the “one-stop shop” model, will manage collection of Fair Compensation.

Meanwhile, a Decree-Law which is to be approved no later than 2 August 2018 will regulate (i) the determination of the equipment, devices and material media subject to payment of Fair Compensation; (ii) the amounts to be paid[^28] and (iii) the distribution of Fair Compensation. However, until such Decree-Law is approved, Decree-Law 12/2017 has set out a transitional regime with a list of equipment, devices and media subject to the Fair Compensation scheme, as well as the amount to be paid. For example, CDRs are subject to a levy of 0.08 euros/unit, a USB memory stick to 0.24 euros/unit and a mobile phone to 1.10 euros/unit.

Moreover, it is worth highlighting that Decree-Law 12/2017 introduces some important new developments to the Fair Compensation model:

a) It envisages that there will be no obligation to pay compensation in those situations – to be determined in a Decree – in which the harm caused to the copyright holder (right of reproduction) is minimal.

b) The following are not considered “private copies” and, as such, are not subject to payment of Fair Compensation:

   i. Those copies made in establishments devoted to making reproductions for the public, or that make equipment, devices and material media for reproduction available to the public.

   ii. Those copies made using equipment, devices and material media for digital reproduction that have not been made available to private users and that are manifestly reserved for uses other than making private copies.

[^26]: Acting as distributors.
[^27]: Decree-Law 12/2017 considers distributors, wholesale and retail, to be jointly and severally liable for payment of Fair Compensation where they are successive acquirers of the equipment, devices or material media, with respect to the debtors that supplied the same to them, unless they demonstrate that they paid the Fair Compensation to the latter.
[^28]: Decree-Law 12/2017 provides a list of objective criteria for determining the amount of the Fair Compensation.
c) Equipment, devices and material media for reproduction devoted manifestly to professional use and that have not been made available, either de iure or de facto, to private users for making private copies, are not obliged to pay Fair Compensation.

d) Among other cases, the acquisition of reproduction equipment, devices and material media by certain public administrations is exempt from paying Fair Compensation, as well as the acquisition thereof by natural or legal persons acting as final consumers, provided that it can be proven the use of equipment, devices and material media is exclusively professional and the requirements established in Decree-Law 12/2017 are met.

e) It is envisaged that those natural or legal persons not exempt from payment of Fair Compensation can apply for a refund in the specific circumstances outlined in Decree-Law 12/2017.

Finally, Decree-Law 12/2017 introduces another major change that should not be overlooked: a new requirement for a copy to be considered a “private copy”. In addition to the traditional requirements (copy made by a natural person, for non-collective and non-lucrative private use, etc.), it now also specifies that “the reproduction be made using a lawful source and that does not infringe the conditions for access to the work or service”. With this new requirement, which narrows the scope of private copying even further, many copies will now simply become unlawful copies that do not generate the obligation to pay Fair Compensation (notwithstanding the option for the copyright holder to claim indemnification).

“Definitely an outstanding lawyer,” Miquel Montañá leads the department from Barcelona and holds a truly enviable reputation in the field of life sciences IP. He is unanimously considered by both peers and clients to be one of the most relevant practitioners currently active, with one source commenting: “As a litigator, he is experienced and impressive; he prepares well for the cases and is very easy to work with.” His recent work includes representing Pfizer in several proceedings.”


“Miquel Montañá is a leader in patent litigation. He also advises on copyright and trade mark disputes, as well as regulatory concerns. He receives superlative feedback for his practice, with clients noting: “He is very good in his field, knows everybody, and also knows the pharmaceutical industry. He is creative in his approach and knows case law in Spain.”


“Market sources are impressed by Miquel Montañá’s “impressive ability to learn complex technical matters quickly,” adding that he is “always trying to find a friendly way to resolve conflicts.” He specialises in IP disputes, for which he is unanimously considered to be one of the leading lawyers in Spain. His additional expertise includes unfair competition, criminal actions and damages claims.”

Chambers & Partners 2017: Europe Guide: Spain, Barcelona – Dispute Resolution, Band 1
The Judgment handed down by the Supreme Court of the United Kingdom ("SCUK") on 12 July 2017 in the Alimta case is the final instance of judicial proceedings before the English Courts dealing with patent infringements in four different European countries: the UK, France, Italy and Spain. This article will focus on the Spanish perspective of the case and on the interpretation and implementation of Spanish patent law by the English Courts.

Background

The issue raised in the appeal and cross-appeal before the SCUK was whether three pharmaceutical products manufactured by the Actavis group of companies ("Actavis") would infringe a European patent whose proprietor is Eli Lilly & Company ("Lilly") and its corresponding designations in the United Kingdom, France, Italy and Spain.

Lilly's patent claims, inter alia, the use of pemetrexed disodium in the manufacture of a medicament for use in combination with vitamin B12 for the treatment of cancer. Actavis filed declarations of non-infringement for its proposed products which, instead of using pemetrexed disodium in the medicament, used: (i) pemetrexed diacid; (ii) pemetrexed ditromethamine; or (iii) pemetrexed dipotassium.

At First Instance in the High Court, Arnold J decided that Actavis’ products would not directly or indirectly infringe the patent in the UK, France, Italy and Spain. The Court of Appeal allowed Lilly’s appeal to the limited extent of holding that there would be indirect infringement in the four jurisdictions. However, the Court of Appeal agreed with Arnold J that there would be no direct infringement. Lilly appealed, as it considered that Actavis’ products would also directly infringe the patent, whilst Actavis counter-appealed, as it considered that Actavis’ products would not indirectly infringe Lilly’s patent.

The appeal raises the issue of the correct approach under UK law (and the law of the three other Member States) to the interpretation of patent claims, and in particular the requirement of EPC 2000 to take account of “equivalents”.

Patent infringement under the doctrine of equivalents

According to the SCUK the scope of protection afforded to a patentee is not to be limited by the literal meaning of the claims (in this case referring to pemetrexed
“disodium”). Furthermore, when considering the extent of protection afforded by a claim, equivalents must be taken into account, but no guidance is given by the EPC 2000 as to precisely what constitutes an equivalent or how equivalents are to be taken into account. The question is how far one can go outside the wording of a claim to enable the patentee to enjoy protection against products or processes which are not within the ambit of the actual language. The Alimta case concerned whether the pemetrexed diacid, ditromethamine and/or dipotassium should be considered as an equivalent of pemetrexed disodium in the patent claim.

As far as Spanish law is concerned, the SCUK acknowledged that:

“Spanish courts appear to have effectively adopted the approach embodied in the three questions suggested by Hoffmann J in Improver [1990] FSR 181 – see for instance Laboratorios Cinfa SA v Eli Lilly & Co Ltd ("Olanzapine") Court of Appeal of Barcelona judgment no 8/2008, 17 January 2008.”

Indeed, the Barcelona Court of Appeal and the Spanish Supreme Court have followed English case law in cases relating to pharmaceutical products (Catnic and Improver cases) in order to determine possible infringement by equivalence, three questions (the “Improver questions”) should be answered, namely:

1) Does the variant have a material effect upon the way the invention works? If the answer is affirmative, equivalence does not exist; if it is negative, (i.e. the functioning is not altered) it is necessary to answer the next question.

2) Would the variant have been obvious to a person skilled in the art reading the patent on its publication date? If the variant was not obvious (i.e. it is inventive) then there is no equivalence; however, if the answer is yes, the following question must be asked.

3) Would a person skilled in the art reading the patent, given the terms used in the claim, have understood that the holder intended that strict compliance with the primary meaning was an essential requirement of the invention? If so, there can be no equivalence; but if strict compliance with the literal wording is not essential to the invention, the variant may be equivalent.

The SCUK reformulates the doctrine of equivalents in pharmaceutical cases

The SCUK’s Alimta judgment of 12 July 2017 reformulates the three “Improver questions” to deal with patent infringement under the doctrine of equivalents in pharmaceutical patents. The SCUK first states that a problem of infringement is best approached by addressing two issues: (i) does the variant infringe any of the claims as a matter of normal interpretation; and, if not, (ii) does the variant nonetheless infringe because it varies from the invention in a way or ways which is or are immaterial? If the answer to either issue is “yes”, there is infringement; otherwise, there is not.
According to the SCUK, the second issue poses more difficulties of principle: what is it that makes a variation “immaterial”? The SCUK considers that the three “Improver questions” provide helpful assistance, but the second question requires some reformulation. Instead of asking whether it would have been obvious to the notional addressee that the variant would have no material effect on the way in which the invention works, the SCUK considers that the second question is better expressed as asking whether, on being told what the variant does, the notional addressee would consider it obvious that it achieved substantially the same result in substantially the same way as the invention.

In the *Alimta* judgment, the SCUK settled two additional important points. Firstly, the reformulated second question should also apply to variants which rely on, or are based on, developments which have occurred since the priority date, even though the notional addressee is treated as considering the second question as at the priority date (when one is considering a variant which would have been obvious at the date of infringement rather than at the priority date, it is necessary to imbue the notional addressee with more information than he might have had at the priority date).
Secondly, this reformulated second question does not require the variation not to be inventive (if the variation represents an inventive step, it may entitle the infringer to a new patent, but the variant could still infringe the original patent).

Taking into account all these factors, the SCUK reformulates the three “Improver questions” as follows:

i) Notwithstanding that it is not within the literal meaning of the relevant claim(s) of the patent, does the variant achieve substantially the same result in substantially the same way as the invention, i.e. the inventive concept revealed by the patent?

ii) Would it be obvious to the person skilled in the art, reading the patent at the priority date, but knowing that the variant achieves substantially the same result as the invention, that it does so in substantially the same way as the invention?

iii) Would such a reader of the patent have concluded that the patentee nonetheless intended that strict compliance with the literal meaning of the relevant claim(s) of the patent was an essential requirement of the invention?

In order to establish infringement in a case where there is no literal infringement, a patentee would have to establish that the answer to the first two questions was “yes” and that the answer to the third question was “no”.

The SCUK held that the reformulated questions are also be applicable in Spain:

“So far as Spanish law is concerned, it is common ground that the Spanish courts have followed the United Kingdom approach, which leads to the difficult question whether one should assume that they would follow this decision in modifying the Improver questions and in particular the second question. I incline to the view that judicial comity would tend to suggest that the Spanish courts would follow this court in modifying the Improver questions, not least because this appears to render the UK courts and therefore the Spanish courts more consistent with the German and Dutch courts, and no more inconsistent with the French and Italian courts.”

There is no doubt that this Judgment of the SCUK is applying, interpreting, modifying and implementing the previous Spanish case law on this issue. But will our Spanish Courts follow the SCUK’s interpretation in the future? It is our expectation that they will do so. Undoubtedly the Judgment of the SCUK has attempted to harmonise the case law on the doctrine of equivalents of four different European countries within one single case. This is a tremendous breakthrough for the interpretation of the doctrine of equivalents in Europe.
MILAN
INVENTIONS AND INDEPENDENT CONTRACTORS: EVOLUTION OF LAW

In Italy, the recently enacted Law 81 of 22 May 2017, ("Law 81/17") specifically provides rules to govern inventions by free-lance workers. It thus creates a difference in the treatment of independent contractors as compared to subordinate employees. Before Law 81/17, Italian courts tended to apply the rules governing innovations by employees to inventions by free-lance works by analogy.

As a result of Law 81/17, in the absence of a specific contractual provision in the contract with the free-lance worker, the principal will not have any economic right to any inventions by the worker, not even those created in performance of the contract for services.

Therefore, except where the contract specifically provides for the inventive activity to be remunerated, it will be crucial for the parties to address and regulate this matter when drafting or renewing the contract for services.

Previous regime
Previously, Italian legislation expressly governed inventions by subordinate employees, mainly through Article 64 of the Industrial Property Code ("IP Code"). The courts applied those provisions to inventions by free-lance workers by analogy. For example, the Court of Milan's Special Section for Enterprises recently held that in the absence of an express regulation and unless otherwise agreed, the economic rights arising from an invention created by free-lance workers belong to the principal, applying by analogy Article 64 of the IP Code.29

Article 64 IP Code expressly states that:

- An invention created in performance of a contract that envisages the performance by, and specifically compensates, the employee for inventive activity originally belongs to the employer and no other compensation is due to the employee/inventor, except the right to be recognised as the author of the invention;

Key Issues
- Before Law 81/17, the Italian legal framework did not expressly govern inventions created by independent contractors in performance of the contract for services with the principal. Courts generally applied the principles governing inventions by subordinate employees to free-lance works by analogy.
- Article 4 of Law 81/17 now expressly states that where the contract for services does not specifically contemplate and remunerate inventive activity by the worker, the economic rights relating to original works and inventions created by the free-lance worker belong to the worker.
- Parties to a contract for services should consider stipulating a covenant for the transfer the economic rights arising from any invention created by the free-lance worker to the principal, in exchange for consideration from the principal.

29 Court of Milan, Special Section for Enterprises, Ruling 6964 of 27 May 2014. See also Court of Bologna, Ruling no. 3883/2010 of 29 December 2010; Italian Supreme Court, Ruling no. 5527 of 23 October 1979; Court of Bologna, Special Section for Enterprises, Ruling of 09 June 2014 (GADI 6158/2014); Court of Vicenza, Ruling of 21 May 2002 (GADI 4436/2002).
• An invention created in performance of a contract that neither envisages performance nor compensates the employee specifically for inventive activity, belongs originally to the employer, which must however compensate the employee/inventor with a fair reward (equo compenso) when a patent is granted; and

• An invention created by an employee that is beyond and without the scope of the employment contract originally belongs to the inventor/employee; however, the principal has the option right to acquire the invention for consideration.

New Law 81/17

Law 81/17 sets out provisions that specifically govern inventions and copyright involving free-lance works under an independent services contract rather than a subordinated employment contract. With the exception of those cases where inventive activity is provided for and specifically remunerated in the contract for services, the economic rights arising from original works and inventions created by an independent contractor in performance of the contract belong to the worker, rather than to the principal.

Materially changing the status quo in relation to ownership of the economic rights of an invention, Article 4 of Law 81/2017 provides that:

• the principal will no longer be able to acquire by default, subject to paying the fair reward (equo compenso), the economic rights to an invention created by a free-lance worker in performance of the contract for services; and

• the free-lance worker will own all economic rights relating to an invention.

Often, the contemplated outcome in accordance with the above provisions may not be aligned to the best interests of one or even both parties. On the one hand, the principal may have an interest in the economic rights arising from the invention, which was perhaps created thanks to the means and support the principal made available to the free-lance worker. On the other hand, the independent worker may not always be willing or able to comply with the burdens of ownership of rights. For example, the registration of a patent is typically more easily borne by companies.

It therefore becomes crucial for the parties to deal with this matter from the start, through specific contractual provisions concerning the transfer of economic rights.

Italian law, principally Article 1472 of the Civil Code, allows for the stipulation of a contract that validly governs the disposal and ownership of assets and rights that do not yet exist but may exist in the future. In addition, with the exception of the moral right to be recognised as the author of the invention, which rests with the inventor and cannot be transferred, all the economic rights deriving from an invention can be freely transferred by the inventor to third parties pursuant to Article 2589 of the Civil Code.
Therefore, the parties to a contract for free-lance services may provide specifically as to the ownership of the economic rights arising from an invention, if any, that may be developed or created by the free-lance worker in performance of the contract for services. In practice, the contract could, for example, provide that the independent worker will agree to transfer the economic rights to the principal in exchange for the payment of consideration to be agreed between the parties. In these circumstances, the principal would acquire rights on the invention in a derivative way, rather than automatically. If one of the parties later does not comply with the agreement, or if compliance becomes overly burdensome, the general remedies under Italian law will apply.

Contracts for free-lance workers that instead imply and govern inventive activity by the free-lance worker would continue, as before, to govern the acquisition by the principal of the rights attaching to the invention.

Conclusions:
Law 81/2017 provides that, except where inventive activity is contemplated and specifically remunerated under the contract for services, the economic rights relating to inventions created by the free-lance worker in performance of the contract belong to the inventor/worker. Given that this may not be the preferred solution, the parties can agree in the original contract or in any renewal thereof, and even before any invention is created, the terms and conditions for the transfer of those rights to the principal.
DÜSSELDORF

THE SCOPE OF DUTIES WHERE THERE EXISTS AN OBLIGATION TO CEASE AND DESIST: RECALL OF “RESCUE” PRODUCTS IN GERMANY

In a recent judgment, published 13 January 2017, the German Federal Court of Justice (Bundesgerichtshof, “BGH”) held that the prohibition to distribute a product may also result in the obligation to actively recall products already distributed to retailers. While the wording of Section 8 (1) of the German Unfair Competition Act (“GUCA”) only states there is a duty for the defendant to “cease and desist”, the BGH judgment indicates that the defendant could also be obliged to recall any products still in circulation by contacting third parties such as retailers. This article aims to outline the scope of the legal and practical obligations concerning not only unfair competition law, but also IP related rights more generally.

Legal Background

The defendant, a distributor of pharmaceutical products, marketed and distributed alcoholic beverages primarily through pharmacies under the signs “RESCUE DROPS” and “RESCUE NIGHT SPRAY”. The plaintiff, a competitor in the healthcare market, successfully lodged an injunction based on Section 8 (1) GUCA arguing that “RESCUE” is a term specific to and exclusively used for health care products. The Higher Regional Court of Munich (Oberlandesgericht München, “OLG”) confirmed the injunction and ordered the defendant to cease and desist from marketing and distributing any alcoholic products under the sign “RESCUE” with a corresponding warning of severe fines or criminal sanctions.

Following the court’s decision, there still remained a supply of disputed products distributed to pharmacies before the date of the judgment which were still being marketed and sold by the pharmacies. The plaintiff enforced his rights by way of filing a cease-and-desist order in respect of the products that remained in circulation. However, the defendant argued that he had fully complied with the court order simply by refraining from selling any goods and that he was not required to take any further steps, such as notifying the pharmacies and recalling the products at issue.

In consequence, during the execution proceedings, the OLG held that the defendant’s failure to recall any of the products already in circulation violated the court’s order for an injunction. It thus stipulated a fine of EUR 45,000. The defendant appealed the decision.

Key Issues

- In general, a claim for injunctive relief obliges the liable party to refrain from further infringing acts.
- In Germany, any order to cease and desist from the distribution of a product according to Section 8 (1) GUCA also entails the obligation to recall – or at least seriously attempt to recall – the products at dispute.
- Depending on the individual case, the failure to comply with the respective order can lead to severe fines of up to EUR 250,000 or criminal detention according to Section 890 (1) Code of Civil Procedure.
On appeal the BGH ruled that in this case the prohibition to distribute a product entailed the obligation to actively recall any products that had been sold and distributed before the ruling was made. Whilst the BGH acknowledged that retailers cannot be legally forced by the defendant to comply with the request to return products, the court stated that the defendant must at least make a “serious attempt” to retrieve any products previously sold in order to fulfil his obligations. However, the BGH did lower the fine against the defendant to EUR 15,000.

**Legal Analysis and Practical Implications**

Section 8 (1) GUCA consists of two independent methods of legal recourse: (i) a claim for elimination of the infringement; and (ii) a claim for injunctive relief in the event of the risk of recurrence. These two claims have different objectives and therefore require different legal proceedings. The first method aims at ending persisting legal infringements. The second seeks to prevent such infringements in the future. However, under certain conditions these claims may overlap, especially if the defendant’s action causes continuous infringement.

The court’s decision that the order to cease and desist includes not only the duty to refrain from further infringing acts, but also to actively recall the products in dispute is in line with the general principle that injunctions may result in an obligation to take further actions to end a continuing infringement.

However, the court’s conclusion that Section 8 (1) GUCA encompasses the obligation to actively recall products is highly relevant for all parties involved as it affects procedural as well as practical aspects of the case.

The interpretation of the order to cease and desist may be problematic in the event that a plaintiff seeks interim legal protection. The obligation to recall products by way of interlocutory procedures could lead to the pre-emptive enforcement of a claim before the court has reviewed the case on its merits.

**Reasonable and proportionate measures**

The recent BGH judgment aims to limit the scope of an injunction under Section 8 (1) GUCA by applying a test which requires the injunction to be a reasonable and proportionate measure. Accordingly, the duty to recall infringing products must be the least stringent means of action in relation to the specific case. It is therefore necessary to take into account the opposing interests of both parties as well as public interests such as public health.

With regard to the defendant, detrimental effects might include reputational damage, excessive costs and lasting negative effects on customer relations which could result in a recall not being a reasonable and/or proportionate measure. There may be instances where the reputational damage and financial loss incurred by way of an injunction could threaten the existence of the business as a whole.

On the other hand, an obligation on the defendant to recall products saves the plaintiff from having to take action against every individual retailer. The plaintiff thus benefits from the avoidance of having to file numerous infringement claims with respect to
violations of IP rights due to the previous distribution of infringing goods. However, the plaintiff might be held liable to pay damages where the order to recall products was illegitimate, unreasonable or disproportionate. Nevertheless, an obligation on the defendant to recall products in circulation provides an easier and more effective means for plaintiffs to pursue infringements of their IP.

“Seriousness” of notification to distributors
Finally, the BGH also held that where a defendant has a limited legal and actual prospect of successfully recalling all products already on the shelves, a “serious attempt” by the defendant to recall the products is deemed sufficient. Examples of other less stringent obligations as compared to the defendant ensuring the recall of disputed products include measures such as an obligation on the defendant to inform or request that retailers do not distribute or sell any of the products in dispute.

Conclusion
Looking ahead, further developments of this legal principle will likely encompass a wider scope of obligations as part of an order of injunctive relief. An indicator for this hypothesis is the pending transposition of the European Directive 2016/943 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure. According to Article 12 Nr. 2 (a) of the Directive the plaintiff will be granted recourse to recall products in the event of the unlawful disclosure of trade secrets. It is conceivable that national legislators might develop this principle even further and implement reforms based on the Directive. Therefore, although the principles discussed in this article are based on the violation of unfair competition law, it is not unreasonable to assume that this judgment may even be applied to other areas of IP law, such as trade mark or patent law. Moreover, the implications of the decision could also be applied to other legal situations such as court settlements or contractual agreements.
MOSCOW
PARALLEL IMPORTS IN THE EAEU

EAEU

The Eurasian Economic Union (“EAEU”) was established by Belarus, Kazakhstan and Russia with the signing of the EAEU Treaty on 29 May 2014 (the “Treaty”). The Treaty came into force on 1 January 2015. Armenia and Kyrgyzstan joined the EAEU on 2 January 2015 and on 12 August 2015, respectively. The EAEU is the successor to the Eurasian Economic Community, which existed from 2000 to 2014 and was dissolved due to the creation of the EAEU (among other reasons).

Protocol No. 26 to the EAEU Treaty, entitled “On Protection of Intellectual Property Rights”, establishes the concept of regional exhaustion of IP rights to trade marks in the EAEU.

Parallel imports in the EAEU

There is no official definition of parallel imports in EAEU documentation. According to the Trade Facilitation Terms: an English-Russian Glossary, available on the EAEU website, “a parallel import, also known as a grey product, refers to a genuine (i.e. noncounterfeit) product placed on the market in one country, which is subsequently imported into a second country without the permission of the owner of the intellectual property rights which attach to the product in the second country.”

Historically, EAEU member states have applied national, regional and international concepts of exhaustion of IP rights at various points in time, depending on the relevant regulation of parallel imports, i.e.: (i) a total prohibition of parallel imports; (ii) the admission of parallel imports within a certain region; and (iii) the allowance of parallel imports from any third country. Currently, all EAEU member states except Armenia apply the regional regime within the EAEU, which means that IP rights are deemed exhausted when the relevant product is put into civil circulation in any EAEU member state. Armenia presently applies the international concept of parallel imports and will continue to do so until 1 January 2018; it uses special temporary measures to prevent the free circulation of products from its territory to other EAEU member states.

International concept of exhaustion of IP rights in the EAEU – “demo version”

The EAEU member states are currently discussing the possibility of temporarily introducing the international principle of parallel imports in the EAEU in respect of certain goods. The relevant draft amendments to the Treaty are now under consideration by the member states (the “Amendments”). If applied, this would

Key Issues

- A “regional principle” of exhaustion of IP rights is currently applied within the EAEU.
- The “international principle” of exhaustion of IP rights could be applied to drugs, medical devices, baby goods and vehicle parts in the next few years.
- Extension of the regional regime, lobbied by Russia, is opposed by the business community both inside and outside the country.


32 The relevant draft protocol was approved by Order of the Board of the Eurasian Economic Commission No. 30 dated 24 April 2017 (the “Order”).
mean that the IP rights relating to particular groups of products will be deemed exhausted once those goods are put into civil circulation in any country worldwide. The applicable products are to be determined by the Eurasian Intergovernmental Council, to apply either for a limited period of time or on a case-by-case basis.

The main features of the Amendments are:
• international exhaustion is to apply to particular types of goods (drugs, medical devices, vehicle parts, parts for industrial equipment and baby goods are currently being discussed);
• international exhaustion might apply only on a temporary basis; and
• international exhaustion will apply provided that the goods in question are: (i) not available on the internal EAEU market; (ii) are available only in insufficient quantities and/or are overpriced; and (iii) in other cases, determined based on the social and economic interests of the member states.

Pros and cons
The Amendments have been hotly debated in the business communities of the EAEU member states. The main concerns are that (i) product quality could generally worsen due to a greater number of counterfeit goods on the market; and (ii) foreign investment could be adversely affected. The Russian antimonopoly authorities, one of the strongest proponents of the Amendments, argue that the Amendments will put downward pressure on prices and help liberalise imports.

The following measures have been suggested to mitigate the negative impact that parallel imports might have on the EAEU market:
• trade mark owners will be entitled to initiate the cancellation of international exhaustion;
• a new type of customs post will be established to handle parallel imports;
• trade mark owners will be entitled to inspect the imported goods; and
• trade mark owners will be encouraged to localise manufacturing.

That said, no mechanisms or any further details on implementation of the above measures are currently available.

Further steps
Although the EAEU member states were required to notify the Eurasian Economic Commission of the outcome of their internal procedures on approval of the Amendments by 1 July 2017, there is no publicly available information on any such notifications. The Russian Government plans to consider the Amendments in the next few weeks.

The body responsible for implementation of the principle of international exhaustion of IP rights is a Working Group of the Eurasian Economic Commission which was created in 2014.

In a nutshell, the principles of parallel imports in the EAEU are still under development. There are many practical issues to be overcome and further guidance and explicit regulation will be required.
AMSTERDAM
EU TRADE SECRETS DIRECTIVE

Knowledge has become the primary resource of today’s economy. As a result, the manner in which knowledge is acquired, used and disclosed has taken on a new significance. In particular, the extent to which one can safeguard the proprietary nature of information is central to the value of knowledge. The latter representing an increasing challenge in today’s environment of digitisation, long supply chains and diverging national rules and standards. Despite the fact that know-how and confidential business information may be considered key business assets in today’s economy, only a few jurisdictions provide for legal protection in this respect. The United States is one of the most prominent examples of a country which has extensive legislation on the protection of trade secrets. With the introduction of the EU Trade Secret Directive so too will the Member States of the European Union.

The Council of the European Union and the European Parliament adopted a new directive on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use, and disclosure (the “Directive”) on 8 June 2016. EU Member States must bring into force the laws and administrative provisions necessary to comply with the Directive by 9 June 2018. The Directive aims to put companies, inventors, researchers and creators on equal footing throughout the internal market, and as a result the EU will have a common and clear legal framework. Individual Member States may implement more extensive protection against unlawful acquisition of trade secrets (as defined below) provided that the main principles of the Directive are complied with.

This article aims to provide an overview of the protection regime for trade secrets as stipulated in the Directive and to comment on the effects it may have from a practical point of view.

What is a “trade secret”?

The Directive requires the following three elements to establish trade secret protection: (i) secrecy in the sense that the relevant information is not generally known or readily accessible; (ii) commercial value due to the secret nature of the information; and (iii) reasonable efforts of the holder of the secret to maintain secrecy. The definition thus applies to a broad spectrum of information, including know-how, customer- and supplier lists and market strategies.

Key Issues

- The Trade Secrets Directive harmonises the definition of trade secrets and relevant forms of misappropriation.
- The Directive harmonises the civil means through which victims can seek protection.
- Member States have until 9 June 2018 to implement the Directive.
What are the infringing acts considered by the Directive?
The Directive lists the following as infringing acts: (i) the unlawful acquisition of trade secrets; (ii) the unlawful use or disclosure of a trade secret; and (iii) the commercialisation of infringing goods.

Unlawful acquisition
Means of unlawful acquisition are, inter alia, unauthorised access to or copy of any documents, objects or electronic files lawfully under the control of the holder, or by theft, bribery, deception, or breach of a confidentiality agreement. However, the list is not exhaustive. A catch-all clause renders other actions infringing if conduct under the circumstances is considered contrary to honest commercial practices. Due to the generic nature of this clause, it may be the subject of considerable case law in attempts to further clarify how this clause is intended to be read.

Unlawful use or disclosure
The use or disclosure of a trade secret is deemed unlawful in the event that someone (i) has acquired the trade secret unlawfully; (ii) is in breach of a confidentiality obligation or agreement; or (iii) is in breach of a duty (contractual or otherwise) to limit the use of such trade secret. In addition, use and disclosure need to be unlawful according to the abovementioned prerequisites. Indirect use or disclosure is also considered an unlawful use of trade secrets where the person, at the time of use or disclosure knew or should have, under the circumstances, known that the trade secret was obtained from a direct infringer.

Unlawful commercialising
In addition to the acquisition, use and disclosure of a trade secret, the Directive also extends to the commercialisation of infringing goods. Their production, offering or placing on the market (...) or import, export or storage (...) for these purposes shall be prohibited. Infringing goods means goods whose design, quality, manufacturing process or marketing significantly benefits from trade secrets unlawfully acquired, used or disclosed.

Are there exceptions?
The Directive includes a list of exceptions in which case the acquisition, use or disclosure of a trade secret is considered lawful. This includes, inter alia, acquisition through independent discovery, creation, observation, study, disassembly or test of a product or object that has been made available to the public.

In addition, no claims shall be possible if the acquisition, use or disclosure was carried out for certain purposes, e.g., for making legitimate use of the right to freedom of expression and information or where an acquisition, use or disclosure was necessary to reveal the misconduct, wrongdoing or illegal activity (for example whistle-blowing). Also, the purpose of protecting a legitimate interest is considered a justification.

Link Directory
Jaap Tempelman, Counsel at Clifford Chance Amsterdam has published the following article in Cecile Park Media Publication:
“T-Mobile Netherlands v. Netherlands Authority for Consumers and Markets”
What are the remedies in the event of infringements?
Remedies stipulated in the Directive to enforce trade secret rights include preliminary as well as permanent measures, including injunctions, recalls and damages. These remedies need to be implemented by the Member States.

Preliminary measures
Interim as well as precautionary measures include the seizure of infringing goods to prevent their entry into the market as well as the prohibition of the infringing action by way of interim injunctions. However, infringement needs to be ongoing or imminent.

Permanent injunctions and recalls
In proceedings on the merits, permanent injunctions as well as corrective measures can be requested. The latter include, inter alia, the recall from the market, and the cessation, destruction, or return of infringing goods to the trade secret holder.

“Pecuniary Compensation”
Moreover, the Directive provides for pecuniary compensation as an alternative to injunctions or corrective measures. It shall be available at the discretion of the court, but at the request of the infringer, in cases where (i) the infringer originally acquired the knowledge of the trade secret in good faith; (ii) the execution of the measures in question would cause that person disproportionate harm; and (iii) pecuniary compensation to the injured party appears reasonably satisfactory.

Damages
In case of culpable actions (i.e., where an infringer knew or ought to have known that he or she was engaging in an infringing action) damages can be requested by the holder to compensate the injured party (for example an amount equal to an usual license fee at a minimum).

Additionally, decisions can be made public at the request of the infringed party where appropriate.

Who can sue?
The direct owner as well as any natural or legal person “lawfully controlling a trade secret” is entitled to request measures. Effectively this definition also encompasses licensees. The Member States shall make rules for the limitation periods to claims and actions on the basis of the Directive which length shall not exceed 6 years.

Are there any measures taken during litigation to avoid disclosure?
The Directive aims to ensure that trade secrets are not disclosed during court proceedings. To that end, access to documents containing trade secrets shall be restricted. Also, hearings in which trade secrets are disclosed may only be attended by lawyers of the parties as well as authorized experts that are subject to a confidentiality obligation. In certain cases a confidentiality obligation may be imposed on the lawyers towards their clients. Lastly, the issuance of court decisions in redacted form only shall be possible.
What should I do?

A key element of the definition of trade secrets is that ‘reasonable steps have been taken to keep the information secret. You should therefore identify your trade secrets and assess for your trade secrets which actions have been taken to keep this information confidential. This includes the review of employment contract protections (including confidentiality clauses) and identifying the current protective measures in place (such as usage of non disclosure agreements, policies, IT systems and document management systems). Finally, you should ensure that your employees adhere to honest commercial practices and comply with the confidentiality procedures in place at your company.

A copy of the Directive can be found by clicking here.
HONG KONG
CHINA ESTABLISHES ITS FIRST CYBERSPACE COURT IN HANGZHOU

On 26 June 2017, China approved a plan to set up the Hangzhou Cyberspace Court at Hangzhou, Zhejiang Province, China. Hangzhou is the home of the e-commerce giant Alibaba and the home of China’s thriving e-commerce industry.

Jurisdiction
According to the Zhejiang e-commerce court website, the Hangzhou Cyberspace Court will take over jurisdiction for the following types of cases from the Hangzhou district courts from 18 August 2017:

- contractual disputes in relation to online trading, service and small loan activities;
- disputes in relation to online copyright ownership or infringement;
- disputes in relation to online infringement of the personal rights of an individual;
- product liability claims over goods purchased online;
- domain name disputes;
- disputes in relation to online regulation by a government department; and
- other internet related civil and administrative cases as designated by the superior court of the Hangzhou Cyberspace Court.

Operations
The establishment of the Hangzhou Cyberspace Court follows a pilot programme implemented from April 2015 in four Hangzhou courts: the Hangzhou Intermediate Court, Hangzhou Xihu District Court, Hangzhou Binjiang District Court and the Hangzhou Yuhang District Court. These courts specifically hear disputes concerning online payments, copyright and transactions.

As reported, the parties will be able to file complaints through this online platform and may be able to appear at court hearings by video link. Judgment in the case would be delivered online.

The Hangzhou Cyberspace Court is likely to follow the above practices. After registering an account with the cyber-court, a party may be allowed to file a complaint, submit evidence, request service of process and attend a hearing remotely through the Hangzhou Cyberspace Court’s online platform at www.netcourt.gov.cn.

Key Issues
- The Hangzhou Cyberspace Court’s new online platform will allow parties to file complaints, submit evidence, request service of process and attend hearings remotely.
- This has the potential to make the option of judicial resolution more appealing and cost-effective when enforcing rights against an online infringer.
Implications
It seems that the creation of the Hangzhou Cyberspace Court represents an important step towards the provision of an online court system allowing parties to resolve their disputes remotely and efficiently. This has the potential to make the option of judicial resolution more appealing and cost-effective when enforcing rights against an online infringer.

It will be interesting to see how cases will be handled by the Hangzhou Cyberspace Court in practice and to what extent this new online court system can help facilitate the enforcement of IP rights in China.

“At Clifford Chance, highly regarded practice head Ling Ho advises well-known international companies on trade mark and brand portfolio management, and works alongside colleagues in the M&A department to handle the IP aspects of major corporate transactions.”
LEGAL 500 2017: Hong Kong – Intellectual property
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