

intellectual property update

ISSUE 3

New benchmark for comparative advertising

The new Trade Marks Act 2002 came into force on 20 August and has already been applied to comparative advertising by the Court of Appeal in *Benchmark v Mitre 10*.

Earlier this year, Mitre 10 applied for and was granted an injunction by the High Court to stop Benchmark's use of Mitre 10's brochures. Benchmark had used Mitre 10's advertising brochures, added stickers to them to show lower Bunnings' prices for some of the products, and then displayed the brochures at its Bunnings Warehouse stores.

On appeal, the Court of Appeal considered how the new Trade Marks Act 2002 applies in the context of comparative advertising.

Under the old Act, most forms of comparative advertising using competitors' registered marks would have been trade mark infringement. The new Act now permits comparative advertising using registered trade marks unless the comparative advertisement:

- is not "in accordance with honest practices in industrial or commercial matters"; and
- "without due cause, takes unfair advantage of, or is detrimental to, the distinctive character and repute of the trade mark".

The Court of Appeal considered that the use by Benchmark of Mitre 10's own material was "comparative advertising". Although there were breaches of the Fair Trading Act (inaccurate price comparisons), this did not automatically amount to "dishonest use" of the trade marks. The Court:

- seems to have made a distinction between the Fair Trading Act issues (ie the accuracy of the advertisements) and the manner in which Benchmark used the trade marks; and
- considered that this did not amount to Benchmark taking unfair advantage of the distinctiveness or reputation of the trade marks to any greater extent than more conventional forms of comparative advertising.

Consequently the Court overturned the injunction. It remains to be seen what will amount to practices that are not "honest".

UK courts regard significantly inaccurate comparisons as dishonest and harmful to the trade marks.



New intellectual property crimes

Discussion about the Crimes Amendment Act 2003 has focused on the new computer-related crimes. However, the Act also contains two crimes that will apply to some types of IP infringement once the Act comes into force on 1 October 2003.

Trade secrets

Traditionally, trade secrets have only been protectable through an action for breach of confidence or breach of contract. Under the Crimes Amendment Act, taking, obtaining or copying a document, model, or other depiction of a thing or process that contains or embodies a trade secret can be an offence punishable by up to 5 years imprisonment.

The new offence is only committed where the person taking, obtaining or copying the trade secret:

- **knows** that the document, model or other depiction contains or embodies a trade secret;
- **intends** to gain a pecuniary advantage or cause loss to another person; and
- **acts** without a belief that they were authorised to take, obtain or copy the trade secret and without a belief that their actions were lawful.

Fraudulent documents

The Act also creates an offence of making a document or causing a document to be made that is in whole, or in part, a reproduction of any other document, with an intention to obtain a benefit by deception or to cause loss to another person.

For example, the offence could be committed where a person pirates CDs or other copyright works intending to sell them as genuine goods.

Interestingly, the offence is punishable by up to 10 years imprisonment, which is twice the maximum penalty provided by the Copyright Act.

A future issue of Counsel will focus on some aspects of the Crimes Amendment Act 2003 in more detail.

Privacy law update

The most recent development in New Zealand involves television presenter Mike Hosking and his wife's recent attempts to prevent the publication of photographs taken of Mrs Hosking and the couple's two children shopping in Newmarket shortly before Christmas last year.

The Hoskings said their children's right to privacy had been invaded and sought an injunction to prevent *New Idea* magazine from publishing the photographs or from taking further photographs of the children until they were 18 years old.

The scope of the injunction sought has concerned many, including several media agencies. Chapman Tripp represented ACP Media, which was permitted to intervene in the proceedings given the potential impact on the media. ACP Media argued that the Court should not recognise a tort of invasion of privacy in New Zealand.

The trial Judge, Justice Randerson ruled that:

- there was no tort of invasion of privacy in the form that the Hoskings had applied for, and refused an injunction
- the most appropriate way to protect privacy was by building incrementally on the action for breach of confidence (as in the UK).

The Hoskings appealed the decision to the Court of Appeal and the appeal was heard in August. As well as the interveners from the High Court (ACP Media and the Commonwealth Press Union), the Commissioner for Children made submissions to the Court on the rights of children to privacy.

The Court of Appeal's decision is eagerly awaited as it will be the first judgment from the Court of Appeal in New Zealand on common law privacy issues.

Digital copyright reform

The Government has announced its proposals for digital copyright reform after two rounds of public consultation.

The next phase will be the drafting of a Bill to amend the Copyright Act, provisionally timetabled for introduction to Parliament in March 2004. The key aspects of the Bill will be:

- Clarifying that “copying” includes digitisation of works, and providing appropriate exceptions for the transient copying which automatically occurs as part of computer processes. For example, the authorised use of a computer program would not be an infringement.
- Providing a technology-neutral right of communication to replace existing broadcast and cable programme rights. This will cover forms of internet distribution.
- Limiting the liability of ISPs for copyright infringement in circumstances where the ISP has no knowledge of the infringing activities.

- Refining the law on circumvention of technological protection measures to extend the provisions to include access control protection measures (as well as copy control) and extending the provisions to the protection of electronic rights management information.
- Introducing new defences and exceptions for digitisation by libraries and also for “format shifting” (eg copying CDs to MP3 format for use on computerised devices).

The exact impact of these proposals will depend on the drafting of the Bill. Businesses potentially affected by the proposals should carefully review the Bill when it is introduced.

It is likely that the Government will seek input from selected IP practitioners during the drafting of the Bill in order to ensure that it precisely reflects the Government’s proposals.

Copyright changes - parallel imports

The Government has introduced a Bill to restore a limited parallel importing restriction on theatre release films for a period of nine months from the time of the film’s first international release.

The purpose of the restriction is to assist provincial cinemas which find it hard to compete against parallel import videos flooding the market before they screen the film. The restrictions have a “sunset” of five years after the passing of the Bill and will be reviewed again at that time.

The Bill will also make important changes to the onus of proof in proceedings against importers of pirated sound recordings, films and computer programs.

Imported copies will be presumed to be “infringing copies” unless the importer proves otherwise.

The copyright owner will only need to prove that the importer “knows or ought reasonably to know” that the copies are pirated, rather than “knows or has reason to believe”.

This will make it harder for importers of these types of pirated goods to claim they did not “know” that the goods were pirated when the circumstances in which they were acquired obviously suggest otherwise.

The Bill has just been reviewed by Select Committee and is expected to be enacted before the end of the year.



Trade Marks Act - new law

The new Trade Marks Act came into force on 20 August 2003. Here are the main points:

Registration

- There is a wider definition of “trade mark” to clarify that distinctive shapes, sounds, smells, tastes etc. are registrable.
- Trade marks are registrable unless there is “no distinctive character”.
- Defensive trade marks are abolished.
- Parts A and B of the Register have been combined.
- Multi-class applications are permitted.
- There are restrictions on trade marks that are offensive to a significant section of the community (including Maori).

Infringement

- Comparative advertising using competitors’ registered trade marks is allowed, provided that the advertising is not “dishonest” and does not take unfair advantage of, or is detrimental to, the distinctive character and repute of the trade mark. This is a significant change from the current position.
- The infringement regime has been expanded so that “well-known” trade marks will be protected against unfair use on dissimilar goods or services.
- There are criminal penalties for counterfeiting and importing or selling counterfeit trade mark goods.
- There is liability for bringing unjustified trade mark infringement proceedings.

Management

- The non-use period for removal of registered marks has been reduced from five to three years.
- New applications will be registered for 10 years, and the renewal periods will be every 10 years.
- Marks can become generic and invalid if the mark becomes a common name in general public use for a product or service.
- Assignment and licensing provisions have been simplified, but now there are difficulties in transferring unregistered marks.

How this affects you

- Marks may be easier to get, but could be more easily lost through misuse or non-use.
- Opportunities exist for increasing the scope of registrations.
- Anti-dilution provisions pose risks in comparative advertising or ambush marketing.
- It is important to use trade marks carefully to promote distinctiveness and avoid genericism.

Maori marks

Businesses contemplating the use of Maori words or symbols as trade marks need to be aware that a Maori Advisory Committee is being established to assist the Commissioner to determine whether use of trade marks that contain, or are derivative of, Maori imagery or words will be likely to offend Maori.

Delays may be experienced in gaining approval for registration of these marks.

Transferring marks

Recording assignments has been simplified and trade mark applications can now be assigned even if the mark has never been used. This is important as the new Act does not maintain the regime under the old Act that allowed unregistered marks to be assigned “without goodwill” (eg other than in connection with the sale of a business) when assigned at the same time as registered trade marks if both were used in the same business for the same goods or services.

If any unregistered marks are of importance to you, obtain advice on how best to handle them.

Patents – important changes announced

At the end of last year, the Government passed a law permitting development work necessary for regulatory approval to be carried out before the patent term expires. The law is of particular concern to the pharmaceutical industry and has proved to be a controversial move.

The Government has now released a discussion paper about the possibility of extending the patent term for pharmaceuticals in line with some of our trading partners.

On 7 August 2003, the Government announced other significant changes to the Patents Act 1953. Some of these proposed changes are as follows:

- The bar will be raised for patentability by requiring that a patent may only be granted if, on the balance of probabilities, the requirements for patentability are met;
- The definition of “invention” is to be slightly modernised and harmonised with Australia;

- There will now be an express exclusion from patent protection for diagnostic, therapeutic and surgical methods for the treatment of humans. There will be a specific exclusion against the patentability of human beings;
- There will be a general exclusion where the commercial exploitation of a patent would be “contrary to morality or *public ordre*, or where prevention of such exploitation is necessary to protect human, animal, or plant life, or to avoid serious prejudice to the environment”.

At the same time, there are to be changes to the Plant Variety Rights Act 1987 that will strengthen the rights granted to plant variety “inventors”. However, fully fledged reforms to this legislation are awaiting the outcome of the Wai 262 Treaty of Waitangi claim, which involves issues such as “bio prospecting”.

The wide ranging changes are expected to become draft amendments shortly and introduced in to Parliament early next year. The cabinet papers containing a complete description of the proposed changes are available online at the Ministry of Economic Development.

Software/business method patents

Business method and software patents have hit the headlines recently. Amazon has attempted to patent its “one click” e-commerce technology in New Zealand. Canadian company DE Technologies has demanded royalties from New Zealand businesses for its patent over “pre-transactional calculation of charges” for online ordering.

Although some types of software and business methods may be genuinely innovative, others are fairly mundane applications of existing technology. The Amazon and DE Technology patents have been criticised on this basis. Although a patent can only be granted if the technology is both new and sufficiently inventive, there are limits to the Intellectual Property Office’s ability to assess this prior to “accepting” a patent for registration.

Applications are advertised in the Patents Journal to give third parties the opportunity to object. However, affected businesses may not be aware an application has been made and may not have the resources to object.

Once the patent is granted, its validity can be challenged in court (including as a defence in patent infringement proceedings), but this is where the patent game begins. The path of least resistance may be to give in and pay royalties rather than get involved in litigation if it looks like the patent owner is serious.

In the case of the Amazon and DE Technologies disputes, some affected business have banded together at the aptly named www.fightthepatent.co.nz.

The Government has recently considered whether software or business method patents should be allowed at all because of the risks in granting “unfair” patents. However, the decision of Government is to continue to allow these patents as long as they meet the requirements for patentability. One of the proposed changes to the Patents Act (see above) will raise the standard needed for an invention to qualify.

The key issues for New Zealand businesses are:

- you can infringe a patent even if you don’t know it exists – “innocent” infringement is no defence;
- you may not be able to exploit what you thought was your technology if someone else has patented it first (and this is also relevant if you want to exploit your technology overseas where patents are registered);
- patents can be granted for what you might think are relatively un-inventive technologies, and software patents sometimes cover types of technology (such as general business methods) which you might not have thought would be patentable;
- the validity of a patent which has been granted can be challenged by anyone at anytime;
- patents must be registered in each country where protection is sought. This is different to copyright which provides “automatic” coverage for most countries.

Sports merchandising - Arsenal win again

Arsenal not only won the FA Cup this year but on 21 May 2003 they also won a major victory in the English Court of Appeal. Arsenal succeeded in closing down a long-standing independent trader's business in selling "unofficial" Arsenal football shirts and merchandise, even though there was a sign at the stall indicating that some of the goods were unofficial.

Arsenal registered its logos as trade marks for merchandise products. The main legal issue was whether consumers would regard the use of the logos on merchandise as merely a "badge of allegiance" (ie to the club) or whether the logos would indicate use in a trade mark or branding sense (ie as a "badge of origin" indicating that the merchandise was official and originated from the club or its licensees).

After a series of cases, including an appeal to the European Court of Justice, the UK courts concluded that the unauthorised use of the logos on merchandise infringed Arsenal's registered trade marks. Otherwise, the marks would be damaged because the "guarantee" that the products came from a single, quality controlled, source of manufacture would no longer be true.

The decision is significant for New Zealand because character merchandising and in particular sports merchandising is big business here too. The Arsenal decision seems consistent with recent New Zealand decisions protecting merchandising.

Recently, the New Zealand Rugby Football Union took action in two instances attempting to stop third parties from using registered "All Blacks" trade marks. In the first case, against Canterbury International Ltd, it did not succeed but it did succeed in the second case, which involved a publishing company.

The publishing company had used calendars bearing pictures of All Black captains. In one picture, Anton Oliver was wearing his All Black gear, which included registered trade marks. The Judge said that this was a "trade mark use". Some people might think that calendars were sourced from or authorised by the Rugby Union because the calendars bore the trade mark.

Some commentators think that this decision was wrong. They ask whether it's realistic to conclude that a significant number of people would presume that calendars of All Black captains were sourced from or approved by the Rugby Union merely because there were registered trade marks visible on the jerseys.

The English Court of Appeal in the Arsenal case emphasised that a registered trade mark gives to its owner a property right. This right can be infringed by someone, without permission, who is using a trade mark, even innocently, if that use would somehow effect or jeopardise the right of the trade mark owner to be regarded as the sole source of goods bearing the trade mark.

Even if it is clear to most consumers that the product which they are buying (perhaps a T-shirt with "Auckland Blues" on it) is not made by the trade mark owner or with its permission, the effect of this marketing is to dilute the exclusivity rights granted by the trade mark registration.

Moreover, the English Court of Appeal suggested that it would take very strong evidence to dissuade them that some people who buy unofficial gear may do so not only because they simply want to show their support, but also because they think that the gear is actually made or authorised by the trade mark owner.

The Arsenal case is a major triumph for famous brand owners who sell or license merchandise. New Zealand law is different from English law but the case does enforce strong rights for trade mark owners. This trend is also seen in our new Trade Marks Act 2002, in the form of protection against anti-dilution and in the express recognition of a trade mark registration as personal property.

The message from all quarters, therefore, is register your brands!

Ensure your software arrangements are in writing

A recent Court of Appeal decision on computer software reaffirms the dangers of unwritten agreements to commission copyright works.

Perry Software had asked Pacific Group to develop software for a centralised database. But when Pacific completed the software, it would not hand over the original "source code" (ie programming language) to Perry. Pacific said that 85% of the software consisted of its own pre-existing "library" code, which it might want to re-use on other projects.

Because there was no agreement to the contrary, Perry argued that the software came within the "commissioning" rule in the Copyright Act giving ownership automatically to Perry and allowing it to stop Pacific from re-using the library code.

The High Court decided in Perry's favour, but the Court of Appeal took a middle road. The commissioning rule could not apply to pre-existing code, and so, if Pacific's claims about the library code were true, Perry would only have an irrevocable licence to use the library code as part of the software package it had commissioned.

Although Perry, as the commissioning party, would own the copyright in the software programme as a whole and could do things such as assign the software to others, these rights could not displace Pacific's ownership in any pre-existing library code. Pacific's ownership rights were not assigned to Perry because the Copyright Act requires assignments to be in writing.

Although the outcome appears sensible, some problems still remain. A copyright licence, even if "irrevocable" and transferable, will never be as good as ownership of a copyright.

The reason why Perry (and others who commission software) would want ownership of all the code, is to make licensing and sale of the software easier. Where complete ownership is not possible, which is often the case, then you should use written agreements to protect your interests.

For example, the Court of Appeal did not consider what would happen if Pacific assigned its library code to another party. The Act suggests that the licence granted to Perry might not bind subsequent copyright owners who do not have notice of the licence. A written agreement could provide some protection against this, or at least provide "comeback".

A written agreement should also specify which warranties you are receiving in respect of the intellectual property licensed to you. Consequently, you can make sure this corresponds with the warranties you may have to give to your own customers.

The Court confirmed that:

- "the best practice is to have a written agreement. Software developers and purchasers would be well advised to ensure that sound industry contracting procedures are in place".
- the onus will be on developers to demonstrate the existence and extent of any claimed prior rights, and
- this decision will not necessarily be followed in every case. The facts of the case will determine whether or not there is an implied licence and the terms of it.

It is vital to agree "up front" in writing the expectations and understanding of the parties and secure your future position and ability to trade in the intellectual property. The "commissioning" rule in the Act is narrower than many think.

Our trade mark services

Chapman Tripp provides a full range of brand protection, management and development services including:

- trade mark applications, oppositions, registrations and renewals nationally and managing and co-ordinating trade mark applications and registrations internationally
- general portfolio management including renewal reminders and the provision of regular status reports, and being a safe depository for your corporate trade mark history
- keeping watching briefs on competitors' marks
- co-ordination of domain name registrations and renewals nationally and internationally
- seamless advice on the suitability of brand names including brand availability assessments and reports
- providing strategic advice and litigation services from our integrated teams of commercial and litigation lawyers in relation to your trade marks nationally and internationally

Our intellectual property services

Our intellectual property teams offer a wide range of intellectual property protection, management, and development services and work with other teams within the firm where this is relevant to a project. Services include:

- strategic advice from our commercial and litigation teams to assess intellectual property relevant to you and to maximise the value and protection of your intellectual property
- handling intellectual property ownership and contracting issues
- due diligence investigations and intellectual property audits
- intellectual property arrangements including licensing, assignments, and NDAs
- practical and legal steps (including litigation and management of disputes) for protecting and enforcing intellectual property rights

Our team



Chris Young

PRINCIPAL

P 64-9-357 9029

E chris.young@chapmantripp.com

Christopher Young is a commercial intellectual property lawyer and an IP team leader based in our Auckland office. He has extensive experience and advises on a wide range of commercial IP issues, agreements and transactions including the transfer and licensing of IP and technology, the sale and acquisition of IP (including in the context of business and share sales), due diligence investigations, IP audits, supply agreements, manufacturing agreements, franchise agreements, distribution agreements, sponsorship and endorsement agreements. He also advises on IP protection and infringement, brand development strategies and the registration of trade marks.



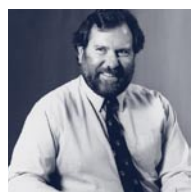
Bram van Melle

SOLICITOR

P 64-9-357 9010

E bram.vanmelle@chapmantripp.com

Bram joined the firm in 2001 from Victoria University where he was a Senior Lecturer specialising in IP. Bram works on a wide range of commercial IP issues, including IP protection and infringement, exploitation, transactional work, commercial structuring and brand development. Bram advises on IP law reform issues (especially copyright), and complements his IP work with a background in competition law.



Jack Hodder

PARTNER

P 64-4-498 4944

E jack.hodder@chapmantripp.com

Jack Hodder is a senior litigation partner in our Wellington office. He has an enthusiastic and longstanding interest in intellectual property. IP featured in his LLM studies at the University of London, and his work as a former Law Commissioner, and as an honorary lecturer at the Victoria University of Wellington Law School where he taught IP at Honours and Masters level. He has been, and continues to be, involved in a range of leading IP cases, as well as in other commercial and public law litigation.



Paul Sumpter

CONSULTANT

P 64-9-358 9832

E paul.sumpter@chapmantripp.com

Paul Sumpter, one of New Zealand's leading intellectual property lawyers, joined us earlier this year as a consultant. Alongside his academic position with Auckland University Law School, Paul will be available to give our clients the benefit of his international IP expertise. Paul has returned to New Zealand practice after 2 years with a top Sydney specialist firm, and completing an LLM in London. Paul's mix of academic IP law understanding and commercial acumen gives a further edge to our intellectual property team.

Partner

Jo Appleyard

Paul Barnett

Robert Bycroft

Lawrie Hinton

Pheroze Jagose

Andrew Poole

Adam Ross

Principal

Jo Baguley

Andrew Woods

Solicitor

Matt Allen

Sarah Fairbrother

Greg France

Justin Graham

Miriam Knight

Nicholas Wood

Every effort has been made to ensure accuracy in this document. However, it is necessarily generalised and readers are urged to seek specific advice on particular matters and not rely solely on it. Further practical changes affecting the Act may be introduced in the Regulations when these are completed.

www.chapmantripp.com

Auckland
23-29 Albert Street
PO Box 2206
P 64 9 357 9000
F 64 9 357 9099
E ctsyak@chapmantripp.com

Wellington
1-13 Grey Street
PO Box 993
P 64 4 499 5999
F 64 4 472 7111
E ctsywn@chapmantripp.com

Christchurch
119 Armagh Street
PO Box 2510
P 64 3 353 4130
F 64 3 365 4587
E ctsychn@chapmantripp.com