

Intellectual property infringement

Robert Anderson

Queen's College, Cambridge

29 - 31 August 2000

Liability insurance

Accepting the challenge

Providing the solution

CONTENTS

	Page
INTELLECTUAL PROPERTY INFRINGEMENT - AN ACADEMIC ISSUE OR A SERIOUS RISK?	1
TYPES OF INTELLECTUAL PROPERTY	1
TERM OF PROTECTION	2
COPYRIGHT	2
DESIGN RIGHTS	3
TRADE MARKS	4
TRADE AND INDUSTRIAL SECRETS	4
NATIONAL RIGHTS	5
OTHER TYPES OF INTELLECTUAL PROPERTY	6
THE IMPORTANCE OF INTELLECTUAL PROPERTY	6
POTENTIALLY INSURABLE RISKS	7
WHY ARE IP POLICIES NOT MORE POPULAR?	8
THE FUTURE	10

INTELLECTUAL PROPERTY INFRINGEMENT - AN ACADEMIC ISSUE OR A SERIOUS RISK?

“A man had better ... have anything happen to him in this world, short of losing all his family by influenza than have a dispute about a patent.”
(Ungar v Sugg (1892))

Despite this comment over a hundred years ago, patent actions still happen and in fact are substantially more complex, lengthy and costly than they were in 1892. Patents lead to some of the more complex, expensive and serious disputes. For this reason what follows is particularly directed to patents. There is more however to our intellectual property.

TYPES OF INTELLECTUAL PROPERTY

Patents

Validity

Patents protect “inventions”. However, not all inventions qualify. In most legal systems an invention must be novel and not obvious. Usually the question of whether something is novel is determined by whether at the “priority date” of the invention the invention formed part of the “state of the art”. Putting it another way, the question is whether the invention had been made available to the public by publication or use before the first relevant application for protection was filed.

The fact that a development is “new” does not necessarily mean that it is patentable. Putting aside the fact that various things are excluded from patentability (for public policy reasons etc.), to qualify a development must contain an “inventive step”. This means that the development must not be something that, although it has not been done before, is an obvious step to take. The invention may be a product (constructed in a particular way) or a process (perhaps an industrial production process).

The first step towards obtaining patent protection is filing an application for a patent. The application must comprise a specification, which describes the invention in sufficient detail to enable a third party to put the invention into practice. The applicant must also file “claims” which describe the invention or inventions concisely.

A patent is infringed by doing some act (such as use, sale, possession) in relation to the product or process described in the “claims” set out at the end of the patent specification. In order to infringe it is usually necessary for the claimant to show that all the features of the claim are present in the alleged infringement. If one is missing, even though all other features are present, infringement is unlikely. It is quite common in an action for infringement for the defendant not only to argue that what he is doing does not fall within the scope of the claims but also that the patent is invalid - for instance on the ground of lack of novelty or obviousness. Invalidity of the patent is a complete defence.

The grant of a patent is not a guarantee of its validity. Although a patent office will examine a patent for novelty and inventive step before grant, there is a limitation to the exercise that can be carried out. A patent examiner cannot conceivably know about everything that has been published or used. Similarly the examiner is only able to make a broad judgment as to whether an invention is “obvious”. The patent specification may also, unknown to the examiner, be based upon instructions which are not full and clear enough to enable a third party to get the invention to work; if that is so, the patent may be invalid for “insufficiency”. To sum up, the grant of a patent is only a prima facie indication of validity. Needless to say, invalid patents are unenforceable.

TERM OF PROTECTION

Patents do not last forever. However, protection in the UK and many other countries lasts for twenty years from the date of application. (Sometimes however, it happens that the law provides for patent protection to be extended.)

The importance of patents

Patents are particularly important in an industrial context. It would be most improbable for the pharmaceutical industry to exist in its present form without patents. The only way that the millions spent in R&D can be recovered is by pricing the products well above the production cost. This recovery of expenditure would be impossible if competition were allowed to enter the market in the early years and destroy the other pharmaceutical company’s profit margin.

COPYRIGHT

Copyright protects a wide variety of “works”. It is often said that copyright does not protect ideas but the way in which they are expressed. Although this is true, it is, in practice, sometimes difficult to make that distinction. Amongst other things,

copyright protects literary works, dramatic works, musical works, artistic works, sound recordings, films, broadcasts, designs and computer software. In the UK and most other countries no formality (such as registration) is required in order to acquire copyright protection although it is usually the case that the work has to be recorded in some permanent form to attract protection.

It should not be thought that copyright is only useful in an “artistic” context. It is of vast importance to industry and commerce as well. To give a few examples: computer programs are protected whether they are intelligible to the human being or not (so chips containing process instructions can be protected); and compilations of data and technical and financial reports are protected from reproduction. Artistic works are not limited to oil paintings and sculptures but cover technical and engineering drawings.

Originality

Copyright protects “original” works. This does not mean that the work has to be “novel” in the sense that the patentable invention has to be novel. It simply means that the author did not copy the work from someone else. Of course it is possible to have a copyright work which compiles material from other sources but in most cases this does not give protection to the individual bits and pieces of material but simply the compilation as a whole.

Infringement of copyright

It is not an infringement of copyright to produce something that is similar or even identical to somebody else’s work. The essence of copyright infringement is copying the whole work or a substantial part of it. Thus it is always necessary to satisfy a court that the allegedly infringing work is derived in some way from the claimant’s work in order to succeed. Of course in some cases the probability of the defendant’s work having arisen independently is so small that a court will rapidly come to the conclusion that copying must have taken place.

DESIGN RIGHTS

Registered designs

In the UK the Registered Designs Act 1949 offers protection to aesthetic designs applied to industrial articles. The designs must have eye appeal and designs which are purely functional cannot be validly registered. (This does not prevent large

numbers of applications for registration of functional industrial designs being filed and many of them being wrongly registered.) Although the duration of the protection (25 years) is very long, the importance of registered designs is somewhat limited owing to the restricted nature of the designs that can be protected.

Unregistered design rights

Although it is possible to obtain some degree of protection for drawings of functional industrial articles like copyright, since 1988 this has been severely limited in the UK. In most cases a 3 dimensional copy of an industrial design drawing will not infringe the copyright in the drawing. There is however now an unregistered design right. This right protects both aesthetic and functional designs without formality as long as an article is being made to the design or some sort of design document has been produced. This should in theory be a useful means of protection for manufactured items with a short commercial life. The fact that there are very few disputes in courts suggests that this form of protection may not be perceived to be of great value. Protection is available for a maximum of ten years after the article in question has been put on the market. The short term of protection, and the fact that there are complex legal provisions creating the right perhaps explain this. The design right may however have some value in the protection of the topography of “semi-conductor chips”. These articles have a relatively short life span but of course during that period, the turnover in the products would be very large indeed.

TRADE MARKS

Accountants used to record trade marks as having a book value of nil. Things have changed and it is now recognised that trade marks can be valuable assets. The function of trade marks (which may be a word device or even a sound or smell) is to designate the commercial origin of particular goods or services. They can be of colossal value in the designer goods and beverages industries.

Trade marks can be registered or unregistered although registration of a trade mark makes enforcement much easier. Infringement may occur if the mark or something similar is applied to the same or similar goods or services. As with patents, the validity of a registered trade mark can be attacked and also there can be arguments that the defendant’s trade mark is outside the scope of the registration.

Enforcement of unregistered trade marks depends upon laws relating to passing off or unfair competition. There are two particular disadvantages when relying upon “passing off” as a means of protection. First it is necessary to prove reputation associated with the mark. This can be a very costly and unpredictable exercise. Secondly, it is always necessary to prove the defendant’s activities have deceived or are likely to deceive the relevant public. In the end this is a matter of fact and it may be very difficult to obtain the necessary evidence. Broadly speaking passing off actions are expensive and unpredictable.

TRADE AND INDUSTRIAL SECRETS

The law of confidence is often forgotten but it is of exceptional importance in an industrial and commercial context. It can be useful as a means of protecting processes and detailed design information such as dimensions and tolerances etc. Also, in some cases companies may decide not to patent invention but to keep it secret. This is often the case where there is some concern that the scope of protection offered by a patent may be limited and that publication of the details of the invention is likely to give competitors undesirable assistance. Confidential information, unlike patents, is not subject to attacks on validity but of course once the information becomes public knowledge, the protection is finished for most practical purposes. It has a function in commercial and industrial areas of life but also in relation to “personal” matters as well.

The law of trade secrets is of great importance in the protection of computer software. It is difficult to maintain or modify commercial software unless one has access to the “source code”. Most commercial programs are made available to licensees and customers only in object code which although readable by computers, is unintelligible in a normal time scale to a human being. This means that it is difficult for the user and for competitors to determine how the program is written.

A breach of confidence is actionable and since the rights are not based upon registration but on the evidence of witnesses results of proceedings can again be very unpredictable.

NATIONAL RIGHTS

It should be noted that almost all intellectual property rights are national in origin. Thus a patent granted in respect of the UK has no relevance in relation to activities in the USA. Separate protection must be obtained in each country and where

infringement occurs in both countries, two sets of legal proceedings are necessary. Although European patents exist, these are only European in the sense that they are granted through the European Patent Office. After grant they are treated as national patents in respect of each of the countries for which they are designated.

The same is true for most other forms of intellectual property with one important exception. It is now possible to obtain Community Trade Marks which offer protection throughout the European Union and can be enforced by proceedings in one Member State.

In general it is important to note that the number of territories where enforcement is required can multiply the cost considerably. Procedures in different countries may vary and the final outcome - even in relation to similar patents - can be very different.

OTHER TYPES OF INTELLECTUAL PROPERTY

The above are some of the main types of intellectual property rights encountered. However, different countries may give protection in different ways to semi-conductor chips, plant varieties, databases and designs. In view of this any definition of the intellectual property may have to be framed with some care.

THE IMPORTANCE OF INTELLECTUAL PROPERTY

Intellectual property can also be a “problem”

Intellectual property can be a valuable intangible asset. However, intellectual property in the hands of the competitor can create serious difficulties. In technology dependent businesses it is important to try and identify whether there are any third party rights which can have any impact on the way the business is run. In a perfect world, it is advisable to carry out searches on national registers for registrable rights such as patents, which relate to key products or processes in a development. This however is a rather expensive and complicated exercise and is not carried out as often as might be expected.

If a product or process infringes third party intellectual property rights, this can lead to very costly legal disputes. “Heavy” patent actions cost each side £1 million or more in the UK alone. In the UK (and note that this is often not the position in the US) the loser would also pay a substantial proportion of the winner’s costs.

The damages payable for an intellectual property infringement can be substantial and will usually be equivalent to the profit that the claimant would have made had the infringer not been on the market. Obviously this can completely destroy the benefit of selling particular goods or operating a particular process by the defendant. Perhaps more importantly it is usual in a patent and many other intellectual property actions for an injunction to be granted which will restrain the defendant from carrying out the infringing acts until the expiry of the patent. Even if there are only two or three years before the patent expires, such injunctions can be disastrous for businesses and result in factories closing down and in some cases the company going bankrupt. These potentially serious consequences are not without relevance to the conduct of actions covered by insurance (as to which see below).

POTENTIALLY INSURABLE RISKS

These vary of course depending upon whether the insured is the proprietor of intellectual property rights or some other party who is likely to be affected by them. Of course in many cases companies fall into both categories and it is not very unusual for a large high tech company to be both pursuing and defending a number of patent actions at the same time. The risks covered by “pursuit insurance” would usually include the cost of pursuing the infringers and the cost payable to the other side in the event that the proceedings are lost. The main risk to the claimant is that the intellectual property rights, which are the subject of the proceedings, may be invalidated or lost. It is not uncommon for owners of patents and other rights to threaten alleged infringers with a view to deterring them from continuing the infringement. This is a risky business and can result in an action for “unjustified threats”. This is a statutory right of action in the case of patents, trade marks and certain other rights intended to prevent owners of intellectual property rights abusing those rights by intimidating customers etc. Although on the face of things this may not sound serious, actions for threats can result in quite considerable liability on the part of a proprietor of a patent especially if the threats result in a project of some sort being aborted.

From the potential defendant’s standpoint the risks of becoming involved in infringement proceedings cover not only legal costs (and similar points apply here as apply in relation to claimants) but also potential liability for damages and the injunction which could terminate their business. In the latter event of course the defendant will suffer losses of profit during the period of the injunction. These can be difficult to assess but obviously could be astronomical.

Numerous other intellectual property related risks also exist. For example, relating to licences, research and development, or employment agreements. A licensee may, contrary to the terms of the licence destroy the value of important know how. The licensee may fail to pay royalties and recovery proceedings may be required. A consultant under an R&D agreement may seek to retain patent rights for himself and an ownership dispute may arise.

The major assets in many businesses are now dependent upon technology and it is usual to find in sale and investment agreements clauses which warrant to a greater or lesser extent the ownership/validity of intellectual property rights relating to the business and the absence of any infringement of third party rights. There is usually considerable pressure to negotiate such agreements quickly and rarely enough time to investigate these issues to sufficient degree. It may well be attractive to many in those cases to insure against the consequences of such a warranty turning out to be breached.

WHY ARE IP POLICIES NOT MORE POPULAR?

There is no shortage of risks related to intellectual property rights although as explained above, some of these risks can be very serious indeed. It might be expected that this would have generated a thriving insurance market. However the opposite seems to be the case. Policies, at least until recently, have not been perceived as providing adequate protection at an affordable price. It is not a particularly uncommon complaint amongst “consumers” in many industries. However, there seems to be an unusually serious adverse perception in relation to IP policies. In fact, the patent agent writing in the Journal of the Chartered Institute of Patent Agents in October 1999 said:

“No honest person could advise a patentee to take out such a policy”

This is not an uncommon view. What are the reasons for this?

One possibility is that those seeking insurance are not particularly knowledgeable about intellectual property disputes. The complexities at the expense of such disputes are under-estimated and consequently the premium seems excessive compared with their own assessment of the risks.

Some of the problems originate from the wording of the policies themselves. For example, the insurer will not want to fund hopeless litigation. Accordingly there are often provisions that permit the insurer to refuse payment if there is not “a reasonable chance of success”. There are a number of difficulties with this:

- (a) It is by no means clear what is meant by “a reasonable chance”. Clearly throwing some £100,000 into an action where the damages are likely to be tens of thousands and the chances of success are, say, twenty per cent would seem to me, unreasonable. However, would it be unreasonable to defend the infringement proceedings where the chances of the defence succeeding were twenty per cent or less if the result of the proceedings was likely to be a catastrophic injunction? In most cases, in a commercial situation, a company would certainly believe it worthwhile spending its own funds on defending such an action but it by no means follows that a policy would be interpreted in that way.
- (b) The question of reasonableness would probably be based upon the view of one lawyer at the initiation of the litigation. Intellectual property proceedings differ significantly from many other actions where most of the significant facts will be known at the outset. It is only when considerable work has been done in researching the validity of a patent, interviewing experts, conducting experiments etc that it can become clear that a patent is likely to be invalid. However at the outset of the proceedings this information would not be available and the lawyer may have to base his assessment on the very limited information available. He may say that on the facts available to him, the chances of successfully defending the action are “unreasonable”.
- (c) I have also seen wording which provides for payment to be made only in respect of the costs of pursuing infringements of “valid” patents. Since one will often only know whether a patent is valid or invalid after the trial of the action, it is interesting to know whether an insurer might in some cases seek repayment of the costs on the ground that the monies were paid under a “mistake”

One also sees exclusions in respect of “intentional” infringement or in respect of circumstances previously known to the insured. It is difficult to know what is likely to be construed as intentional and what circumstances were previously known. Are these exclusions likely to operate where a company is notified of the existence of a patent, decides that it is invalid and will not infringe and decides to go ahead and carry on with its plans to enter the market? If that were so then this would obviously defeat the objective of the insurance.

THE FUTURE

Intellectual property risks are complex and very unpredictable. This area of risk is not likely to go away unless the developed world reverts to an agricultural economy. There would therefore seem to be a serious and continuing market for insurance against such risks. What is clear however is that the right insurance products need to be available. An article in the Institute of Chartered Patent Agents' Journal in January of this year has sought to answer the criticisms that have been made. It was acknowledged that policies in the past had been inadequate but stated that:

“The ghosts of the past IP insurance are now laid to rest”.

I am not so sure and in my view it will require the creation of a very specialised market which fully understands the complexities involved to develop these opportunities.