The UK IPO asked for future guidance on how late an applicant could be in supplementing its application with missing materials. The guidance given was that "in setting the Article 10(3) period the Comptroller can and should take into account all relevant factors. These will include the reasons for the failure to include all the Article 8(1) materials in the application, the extent to which the applicant is guilty of unreasonable conduct or delay, and how close to the date of expiry of the SPC full compliance with Article 8(1) is expected". The guiding principle is the purpose of the Paediatric Regulation.

As this Judgment was made "just in time", the question of whether a SPC can be extended once it has expired remains unanswered. Jacob LJ stated that it is not clear whether an SPC can be extended after it has expired.

Seemingly it would be difficult to do so in a practical sense, because once the SPC does expire, generic companies would be in a position to launch their product (quite lawfully), and logistically it would be difficult for them to withdraw that product from the market, should a SPC extension be granted after that time. It would also be seemingly unfair, in adding some uncertainty as to whether or not it was safe to launch the product.

If a future court should find that it is possible, then the practical solution to the problem of generic product having come on the market, might lay in a compulsory licence, with some royalty payable by the generic companies to the rights holder for the six month period.

Notes

[1] *E I du Pont Nemours & Co v United Kingdom Intellectual Property Office* [2009] EWCA Civ 966.

[2] The original SPC Regulation.

[3] *E I du Pont Nemours & Co* BL/O/096/09 decision of 9 April 2009.

[4] *E I du Pont Nemours & Co v Comptroller General of Patents* [2009] EWHC 1112 (Ch) Ch D (Patents Court) 22 May 2009.

[5] Case C-181/95.

What Happens When Goods Slip Through The Selective Distribution Net?

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On April 23, 2009, the European Court of Justice (ECJ) held that if a licensee puts luxury goods on the market in contravention of a provision in a licensing agreement, even if it can be deemed to have done so with the trademark owner's consent on the basis of Article 7(1) of the EU Trademark Directive (89/104/EEC), the trademark owner can nonetheless oppose the resale of the goods by third parties on the basis of Article 7(2) of the directive if it can be shown, on the specific facts of the case, that such resale damages the trademark's reputation.[1]

Given this interpretation of Article 7(2) by the ECJ, what approach are the Italian courts likely to adopt?

Although no Italian decision has been published on this point since the ECJ's ruling, a possible starting point is the decision of the specialist IP Chamber of the Court of Bari in *Thun SpA v Lomuscio Distribuzione Srl*. On July 11, 2008, the court concluded that a third party could not be held liable for breaching the provisions applicable to a selective distribution network, as the principle of trademark exhaustion[2] could not be excluded in this case.

Facts

Thun is a leading producer of high-quality ceramic goods and the owner of the denominative and figurative trademark THUN. It has invested substantial capital in creating a specialized selective distribution network, setting high standards for its points of sale in terms of location, repair and appearance, personnel qualifications and other factors. Products bearing the THUN brand can be sold only through the selective distribution network.

When Thun discovered that its original branded products were being sold by Lomuscio Distribuzione Srl, a company which was not part of the selective distribution network, it sued Lomuscio for trademark infringement and unfair competition and sought damages resulting therefrom. It claimed that:

- since Lomuscio was not part of Thun's selective distribution network, it had purchased the branded products without the trademark owner's consent;
- since Thun had the right to prevent the sale of its branded products outside the network, Lomuscio was liable for trademark infringement; and
- Lomuscio had unlawfully exploited the reputation and image of the THUN trademark and its sale of THUN products had damaged the trademark's image, making Lomuscio liable for unfair competition.

The defendant argued that it had purchased and sold genuine THUN goods and that, as it had not signed a selective distribution agreement with Thun, it could not be sued for breach of contract.

Decision

The court found that:

- the trademark owner's rights had not been infringed because (i) Lomuscio had not modified or altered the branded products in selling them outside the selective distribution network, and (ii) a breach of the provisions applicable to such a network cannot be enforced against a third party;
- there was no question of unfair competition in this case, as there was no evidence that the defendant had been aware of the existence of the selective distribution network; and

- Thun had not shown that the location or quality of Lomuscio's shop infringed the requirements of the selective distribution network, meaning that Lomuscio could not be held liable for damage to the trademark's image or reputation.

Comment

The court's view on the last point raises the possibility that:

(i) a trademark owner may be able to invoke an exception to the principle of trademark exhaustion where authentic products – regardless of whether the trademark owner originally authorized their sale – are sold at points of sale that do not meet the requirements of the selective distribution network; and

(ii) failure to meet such requirements may constitute a legitimate reasons for the trademark owner to oppose the further commercialization of the goods.

The ECJ has held[3] that the characteristics and conditions of a selective distribution system can, in themselves, preserve the quality of the goods being sold. Particularly in the case of luxury goods, *quality is not merely the sum of material characteristics, but also a product of an alluring and prestigious image, which bestows an aura of luxury on such goods.*

Moreover, a selective distribution system serves as a quality-control measure by facilitating the detection of counterfeit products and making it easier for a proprietor to identify defective products, carry out a targeted recall and eliminate production defects.

Accordingly, a trademark's value may be damaged not only by failure to meet store quality standards (as in the case of sales of luxury goods at a discount), but also by sales of products out of the selective distribution net, which fail to conform to quality-control standards.

Notes

[1] *Copad SA v Christian Dior Couture SA and Société Industrielle Lingerie*, Case C-59/08.

[2] Under Article 5 of Legislative Decree 30/2005, which implements Article 7(2) of the directive.

[3] C-31/80, *L'Oréal* [1980] ECR 3775, paragraph 16.

IP Due Diligence Review – Russian Aspects

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Due diligence review of intellectually property assets is an essential part of a company's legal due diligence review process. Obviously, it is never possible to overstate the importance of such review. As is the case with non-IP assets, a buyer or other investor would wish to be safe from any risks, and any mistake can be very expensive.

The growth and development of the Russian market has naturally caused an increase in the number of mergers and acquisitions. Currently, the vast majority of serious market players well recognize the necessity of profoundly scrutinizing the IP portfolio of a respective business and identifying all risks and issues before entering in a transaction on purchasing a business.

Overall, an investor looking into Russian IP assets of a company to be acquired and/or reviewed (the "target company") would need to use more or less the same checklist as when conducting a similar exercise in other jurisdictions. However, obviously, Russian laws and practice dictate some specifics. It is not, of course, possible to list and analyze each of them, also given that every IP due diligence is unique and linked to a particular business situation. Nevertheless, it is worthwhile to highlight, at least, some typical and frequently faced important aspects which one should keep in mind when looking at the Russian IP assets of a target company.

Check the Status of Registered Objects

In Russia, certain objects of IP rights having territorial protection, such as patents and trademarks, are subject to state registration. One should keep in mind that unregistered trademarks generally do not enjoy legal protection. Thus, the legal status of each such object must be checked.

It would be prudent to order official searches and status checks through relevant databases of the Russian Patent and Trade Mark Office (PTO) to make sure of the validity of each right, timely payment of applicable maintenance and renewal fees, and absence of encumbrances. For the key brands it might also be wise to check the presence of confusingly similar trademarks of third parties in order to timely reveal and consider steps against other parties' registrations and/or use.

Needless to say, any database in the world, even official databases, may contain errors and omissions. Also, in Russia aspects such as the presence of PTO notifications and provisional refusals of pending applications, pending cancellation actions against registered patents and trade marks, and other potential encumbrances cannot be fully verified through official searches. This information must be requested from the disclosing party and taken into account when setting respective warranties and representations in the course of the acquisition of assets.

It is highly advisable to make sure that, to the extent possible, all distinctive designations commercially used by a target company are properly protected and registered as trademarks. If this is not done, it is highly recommended to consider two steps as soon as possible:

- file respective trademark applications to ensure trademark priority for the designations in question, if they are commercially valuable and planned for future use; and
- simultaneously check for the presence of conflicting senior rights (trademarks, pending applications, company names, copyrights) and even domain names in order to reveal and timely mitigate possible risks of violations of third-party rights.

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