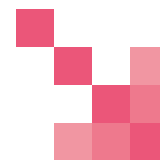


# UK (England & Wales)



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## OVERVIEW OF MAIN IPRS

1. Please give a brief overview of the main IPRs in your jurisdiction, including how they are protected (whether through registration or otherwise). Consider:

- Patents.
- Trade marks.
- Copyright.
- Design rights.
- Confidential information.
- Any other main IPRs that apply in your jurisdiction.

### Patents

An invention must be:

- Novel.
- Involve an inventive step.
- Be capable of industrial application.
- Not be excluded by statute.

The UK Intellectual Property Office (UKIPO) ([www.ipo.gov.uk](http://www.ipo.gov.uk)) handles registration. A fee of GB£200 (about US\$400) is payable on application. Protection lasts for 20 years. Medicinal products can obtain up to five years' supplementary protection to compensate for time lost obtaining marketing authorisation.

### Trade marks

A UK registered trade mark must be:

- Capable of being represented graphically.
- Distinctive.
- Capable of distinguishing goods or services.
- Not excluded by statute.

The UKIPO handles registration. Fees are GB£200 (about US\$400) for one class of goods or services, and GB£50 (about US\$100) for each additional class. Protection lasts ten years, renewable indefinitely.

It is also possible to apply for a Community trade mark (CTM), on substantially the same basis as national trade marks, which provides for protection in all member states of the EU, including the UK. These can be applied for either directly at the Office of Harmonisation for the Internal Market (OHIM) in Alicante, or via the UKIPO. CTMs are discussed further in *Question 27*.

Unregistered trade marks can be protected by the common law via the tort of passing off. If possible, trade marks should be registered, as passing off actions are notoriously expensive, time-consuming and difficult to prove. To succeed, a trade mark owner must show:

- Sufficient goodwill (reputation) in the mark.
- Misrepresentation by the defendant.
- Damage.

The main part of an internet domain name can be registered as a trade mark, and the domain name itself is registered with Nominet ([www.nominet.org.uk](http://www.nominet.org.uk)). Fees are GB£94 (about US\$188), and registration lasts two years, renewable indefinitely.

### Copyright

A work is protected if:

- It is original.
- It is a protectable work according to statute and exists in some permanent form.
- Either the author is a British citizen or domiciled in the UK, or the work was first published or transmitted in the UK.

Protectable works include:

- Literary, dramatic, musical, and artistic works.
- Databases.
- Sound recordings, films and broadcasts. There are no registration requirements. A work will be protected if it qualifies. Duration depends on the type of work, but is typically 50 to 70 years.

Also, a European *sui generis* database right exists independently of copyright. There are no registration requirements, and the right subsists if there has been a substantial investment in obtaining, verifying or presenting the contents of the database. Protection is for 15 years from the earlier of the end of the calendar year when the database was completed, or was made available to the public. A substantial change to the database may give a further 15 year period of protection.

## Design rights

Design rights can be sub-divided into those that require registration, that is, registered design rights, and those that subsist without registration, that is, unregistered designs. A registered design must be:

- Novel.
- Of individual character.
- Not excluded by statute.

The UKIPO handles registration, and fees are GB£60 (about US\$120) for one design, and GB£40 (about US\$80) for each additional design in a multiple application. Protection lasts a maximum of 25 years, with registrations renewed every five years.

It is also possible to apply for a Community registered design (CRD), on substantially the same basis as UK national registered designs, which provides for protection in all member states of the EU, including the UK. These can be applied for either directly at the OHIM in Alicante, or via UKIPO. CRDs are discussed further in *Question 27*.

An unregistered design must:

- Comprise an aspect of shape or configuration of the whole or part of an article.
- Be original.
- Be recorded in a design document or the subject of an article made to the design.
- Be created by a qualifying person.

Protection lasts for the lesser of 15 years from the end of the calendar year when the design was first recorded or an article made, or ten years from the end of the calendar year when articles made from the design were first marketed.

There is also a Community design right, which is similar to the UK unregistered design right. This protects unregistered designs throughout the EU.

## Confidential information

To be protected, information must be:

- Confidential in nature.
- Disclosed in circumstances importing an obligation of confidence.

There is no registration procedure. Protection lasts until the information is no longer confidential.

For further information about the main IPRs, see *Main IPRs: UK (England and Wales)*.

## MAINTAINING IPRS

### 2. What facilities are available to conduct IP searches and obtain IP information on registered IP rights, for example to search:

- Before an application to register an IPR.
- After registration to maintain IPRs and monitor possible infringement?

## Patents

Searches can be carried out online via the UKIPO website, which also publishes the Patents and Designs Journal online every Wednesday, and this contains details of proceedings under the Patents Act 1977, including information about both UK and European patents and supplementary protection certificates.

Also accessible from the UKIPO website is the British esp@cenet database (designed by the European Patent Office), which has details of UK granted patents and patent applications. However, due to the highly technical nature of patents, it is advisable to hire a specialist firm to carry out the necessary searches before an application is made.

After registration searches can still be carried out online. Businesses can also subscribe to watch services, which alert them to potentially conflicting patent applications and registrations as they arise. Again, if the purpose is to find prior art, the use of a specialist search firm is recommended.

## Trade marks

The UKIPO provides a search and advice service before registration which:

- Gives outline advice as to whether a trade mark meets the legal requirements for registration.
- Advises whether any existing UK trade marks or CTMs currently on the register are likely to conflict.

Before and after registration, trade marks can also be searched on the UKIPO website by proprietor, mark text, classification or trade mark number. CTMs can be searched online at the OHIM website, [www.oami.europa.eu](http://www.oami.europa.eu).

In addition, the Trade Marks Journal is published every Friday on the UKIPO website, and contains details of trade marks which have been applied for during the previous week, as well as registrations, renewals and changes to the register. Earlier editions of the Trade Marks Journal can only be searched going back 12 months.

Businesses can also subscribe to watch services, which will alert them to potentially conflicting trade mark applications and registrations as they arise.

In respect of domain names, it is possible to conduct a WHOIS search, accessible online via the Nominet website, to find out information about domain names ending in “.uk”. Alternatively, simply typing identical and similar names into a web browser should reveal any potentially infringing domain names, or will highlight if a desired domain name has already been taken.

### Registered designs

Before and after registration, designs can be searched online at the UKIPO website by proprietor, product, number and class. In addition, the UKIPO publishes the Patents and Designs Journal online every Wednesday, which contains details of all newly registered designs. CRDs can be searched online at the OHIM website, [www.oami.europa.eu](http://www.oami.europa.eu).

Businesses can also subscribe to watch services, which alert them to potentially conflicting design applications and registrations as they arise.

### 3. What steps must a business take to maintain the registration and status of its main IPRs (for example, registration renewal, using an IPR in a certain time period, and avoiding misuse of the IPR)?

#### Patents

Renewal fees are payable annually from the fifth year after filing. Fees increase from GB£50 (about US\$100) in the fifth, to GB£400 (about US\$800) in the twentieth year. Fees for supplementary protection certificates in respect of medicinal products are GB£250 (about US\$500), and must be applied for within six months of the grant of the first regulatory authorisation in the UK or, if the authorisation is granted before the patent, within six months of grant of the patent.

#### Trade marks

Trade marks must be renewed on the tenth anniversary of the filing date, and every ten years after this. Fees for renewal and registration are the same: GB£200 (about US\$400) for one class of goods or services, and GB£50 (about US\$100) for each additional class.

A registered trade mark must be put to genuine use in the UK in relation to the goods or services for which it is registered within five years from the date of publication of the application. More than five years of non-use may lead to the mark being revoked.

Domain name registrations can be renewed at Nominet every two years, for a fee of GB£94 (about US\$188).

### Registered designs

Registered designs must be renewed every five years up to a maximum of 25 years. The fee for the first renewal is GB£130 (about US\$260), then GB£210 (about US\$420), GB£310 (about US\$620) and GB£450 (about US\$900).

### 4. What steps can a business take to avoid committing an infringement of a main IPR and to monitor whether a competitor is infringing its IPRs?

Employees should have a basic awareness of IPRs, and periodic training is recommended. Also, companies should have guidelines aimed at avoiding IPR infringement (for example, dealing with photocopying and referencing sources); guidelines will vary from one industry to another. Searching and regular IP audits may also assist.

### EXPLOITING IPRS

### 5. What are the main steps in an IP audit in your jurisdiction to determine the content of an IP portfolio?

It is advisable to create a checklist of all of the main registered and unregistered IPRs, and to systematically identify those rights owned and used by a company against this list.

Formal registration documents of registered IPRs, and agreements (for example, licences and assignments) relating to both registered and unregistered IPRs should be collected together. A company must know which IPRs it uses and be able to show that it owns or is entitled to use these rights.

For larger companies, or those companies with large IP portfolios, it is advisable to instruct either specialist IP solicitors or auditors to carry out IP audits.

### ASSIGNMENT

### 6. How can main IPRs be assigned (for example, in whole or part, with or without goodwill (in the case of trade marks), in relation to future rights, and with jurisdictional restrictions)?

#### Patents

Patent rights are territorial. Assignments of UK patents and applications, and any right in them, are provided for by section 30 of the Patents Act 1977 (PA 1977) (*see Question 7*).

#### Trade marks

Trade mark rights are territorial. Assignments of registered marks are provided for by section 24 of the Trade Marks Act 1994 (TMA 1994). Both registered and unregistered trade marks can be assigned in whole or part. A registered trade mark is assigned in part when it is limited to some, but not all, of the goods or services for which the mark is registered, or where it is limited to use in a particular manner or locality.

Registered trade marks can be assigned with the goodwill of a business, or independently. Unregistered trade marks can only be assigned with goodwill.

It is possible to assign domain names (*see Question 7*).

### Copyright

The assignment of copyright is provided for by section 90 of the Copyright, Designs and Patents Act 1988 (CDPA 1988). Assignments can be whole or partial. A partial assignment disposes of only part of the work or some of the copyright owner's rights in relation to the work. It is possible to assign future as well as existing copyright and related rights, in addition to dividing copyright by territory or method of exploitation. Moral rights are not assignable.

It is possible to assign a *sui generis* database right (*see Question 7*).

### Design rights

Assignments of registered designs are provided for by section 15A of the Registered Designs Act 1949 (RDA 1949), and unregistered design right by section 222 of the CDPA 1988.

Design rights can be assigned in respect of all or part of the assignor's rights. An assignment can, for example, relate to existing or future rights, a mode of exploitation, territory, or the term of protection. Where a registered design and unregistered design right is owned by the same person, an assignment of one will be taken to include an assignment of the other, unless a contrary intention is indicated (*section 224, CDPA 1988 and section 19(3B), RDA 1949*).

### Confidential information

An assignment will take the form of obligations to both disclose the confidential information and not to use or disclose the information once ownership has transferred.

## 7. What formalities are required to assign each of the main IPRs (for example, in writing, signed by both parties and registration)?

### Patents

An assignment must be in writing and signed by or on behalf of the parties, and should be registered with the UKIPO within six months of the assignment, so that the assignee can claim priority against third parties and damages and profits for infringements occurring before registration.

### Trade marks

An assignment of a registered trade mark must be in writing and signed by the assignor. If Community trade mark applications or registrations are included in the assignment, then it must also be signed by the assignee (*Article 17(3), Regulation (EC) No. 40/94 on the Community trade mark*).

An assignment should be registered with the UKIPO, to ensure the transaction is effective against all third parties, and within six months of the assignment so that the assignee can recover its costs in relation to any infringement proceedings brought before registration.

Unregistered trade marks must be assigned with the relevant trading goodwill, and it is advisable for the assignment to be in writing.

Domain name registrations can be assigned. Transfer is by way of an online form submitted to Nominet and paying a fee of GB£11.75 (about US\$23.50).

### Copyright

Assignments of copyright must be in writing and signed by or on behalf of the assignor. If the assignee is taking on an obligation, it will need to sign as well. The same formalities apply to the *sui generis* database right.

### Design rights

Assignments of design rights (registered and unregistered) must be in writing and signed by or on behalf of the assignor. If the assignee is taking on an obligation, it will need to sign as well. In the case of registered designs, the assignee must register its title with the UKIPO.

### Confidential information

There are no formalities for assigning confidential information but it is advisable for any agreement to be in writing (*see Question 6*).

## 8. What main terms should be included in an assignment of IPRs?

Parties are free to contract on whatever terms they choose. However, it is advisable to include the following terms in an assignment:

- IPRs clearly defined.
- IPRs are capable of assignment.
- Assignor has title.
- Details of retained rights.
- Is it an agreement to assign, or an actual assignment?
- Who takes the benefit and burden of pre-existing claims?
- Indemnities.
- The assignor is to assist with perfection of title, hand-over of documents, access to non-transferring employees who hold confidential information and so on.

## LICENSING

## 9. How can each of the main IPRs be licensed (for example, in whole or part, with or without goodwill (in the case of trade marks), and with jurisdictional restrictions)?

### Patents

Licences of UK patents and patent applications, and any right in the same, are provided for by section 30 of the PA 1977.

Licences can be exclusive, sole or non-exclusive. An exclusive licence confers rights on the licensee to the exclusion of all others, including the patent owner. A sole licence confers rights on the licensee to the exclusion of all except the patent owner. Multiple licensees can benefit from non-exclusive licences.

### Trade marks

Licences of registered trade marks are provided for by section 28 of the TMA 1994. Both registered and unregistered trade marks can be licensed in whole or in part (see *Question 6*). Licences can be exclusive, sole and non-exclusive (see *above, Patents*). Domain names can also be licensed.

### Copyright

Copyright licences are recognised by section 90 of the CDPA 1988. Licences can be whole or partial (see *Question 6*). It is possible to licence the *sui generis* database right. Licences can be exclusive, sole and non-exclusive (see *above, Patents*).

### Design rights

Licences of registered designs are provided for by section 15B of the RDA 1949, and unregistered design right by section 222 of the CDPA 1988. Design rights can be licensed in respect of all or part of the licensor's rights. Licences can be exclusive, sole and non-exclusive (see *above, Patents*).

### Confidential information

Confidential information can be licensed, in whole or in part.

## 10. What are the formalities to license each of the main IPRs (for example, is registration required)?

### Patents

Patent licences are not required to be in writing, however, it is highly advisable that they are and that both parties sign the licence. Licences should be registered with the UKIPO within six months of completion of the licence, so that the licensee can claim damages for infringements occurring before registration, and to bind subsequent acquirers.

### Trade marks

Licences of registered marks must be in writing and signed by the licensor (*section 28(2), TMA 1994*). There are no formalities for licensing unregistered trade marks, or domain names, but in both cases it is advisable that any agreement be in writing and signed by both parties.

### Copyright

Exclusive licences must be in writing and signed by or on behalf of the licensor, if the licensee is to have rights against a successor in title and to bring infringement proceedings.

### Design rights

Exclusive licences must be in writing and signed by or on behalf of the licensor. The licensee must register its title with the UKIPO.

### Confidential information

Confidential information can only be protected as long as the information is confidential, therefore, obligations of confidence need to be clear and imposed on the licensee.

## 11. What main terms should be included in an IP licence?

See *Question 8*. Also, the following should be considered:

- Whether the licence is exclusive, sole or non-exclusive.
- The rights of the exclusive licensee.
- Royalties.
- Indemnities.
- Duration and termination.
- Quality control.
- The ability to sub-license.

## TAKING SECURITY

### 12. Is security commonly taken over IPRs? If yes, which types of IPRs are commonly secured? What problem areas commonly arise (for example, problems valuing the secured IPR assets, or when enforcing the security)?

Security is commonly taken over IPRs. Valuation and enforcement of security are more complicated issues for IPRs when compared to tangible assets, such as real estate. While some IPRs can generate income in isolation, an IPR is often part of a group of IPRs used in a business. An IPR may have limited value outside that business or IPR group. The value of security can change when IPRs are subject to challenge, infringement or where renewal fees are not paid on time.

Enforcing the security can raise additional issues where the party taking security is not involved in similar commercial dealings to the business and will be unable to use the asset. It is common for IPRs to be included in security taken over all the assets of a company.



**13. What are the main security interests taken over IPRs? How are they created (for example, in writing) and how are they perfected (that is, made enforceable against third parties, for example by registration)? Consider:**

- Patents.
- Trade marks.
- Copyright.
- Design rights.

As intangible assets, IPRs are not suitable for security by lien or pledge, although a pledge can be taken over a tangible asset containing the IPR, such as a master copy of a music recording. IPRs over patents, trade marks, copyright and design rights are more commonly secured by a charge or mortgage.

A charge over an IPR is a security interest that does not transfer ownership but gives the lender the right to use the particular asset and its proceeds of sale for the discharge of the debt in question. A fixed charge can be taken over any individually distinguishable IPR, while a floating charge will be required for an asset group without individual IPRs, such as trading names. A charge must be evidenced in writing.

A mortgage over an IPR requires an assignment of either the legal or equitable title in the IPR to the party taking security. The assignor will often need to use the IPR during the period of the mortgage and may require a licence to continue using the IPR during this period of assignment. A mortgage will need to be evidenced in writing and executed by both parties.

A charge or mortgage over an IPR owned by a UK company must be registered with the Registrar at Companies House within 21 days of completion of the transaction. A charge or mortgage over an IPR owned by an overseas company which has established a place of business in England and Wales will be subject to the same deadline. Under the provisions of the Companies Act 2006 which come into force in 2009, this system of registration is to be replaced with new regulations specifically dealing with overseas companies.

There are additional requirements to register charges or mortgages over patents, trade marks or registered designs with the Patent or Trade Mark Office within six months from their creation. A security holder should register any rights within the time limits as they may otherwise lose priority to subsequent registered rights, or have difficulty bringing proceedings against third parties infringing the IPRs.

The Companies Act 2006 contemplates new secondary legislation that would remove the need for a second registration if a charge or mortgage is already registered at the Patent or Trade Mark Office. This change is expected to come into force in 2009. These provisions do not provide for registration of charges or mortgages by branch offices of overseas companies. Instead, it is anticipated that secondary legislation will be enacted in 2009 to provide for such registrations.

## M&A

**14. What IP-related due diligence is commonly carried out in:**

- A share sale?
- An asset sale?

In both a share sale or asset sale, it is important to identify the IPRs used in the business or company being purchased.

Searches of the Patent and Trade Mark registers and enquiries of the business should be made to identify registered and unregistered rights that are owned by the business. It will also be necessary to identify any IPRs used in the business which belong to third parties and any IPRs owned by the business which have been licensed or charged to third parties.

A buyer should ascertain the extent of protection in place in relation to IPRs of the business. This will require a review of all the IPRs owned or used by the business or company to ensure that it owns or has rights to all of the IPRs it requires. Licences of IPRs to and from third parties should be reviewed. Key provisions include:

- Permitted uses for the IPR.
- Warranties and indemnities.
- Change of control.
- Limitations on liability.
- Term and termination arrangements.

The buyer should also ascertain the extent of any infringement of the IPRs by third parties and whether the business is infringing the IPRs of any third parties.

Due diligence should review how well the IPRs are maintained and how any branding is protected. The maintenance of the IPRs can affect their valuation, thereby having an effect on the value of the shares.

Agreements with third parties should be examined for licences of IPRs and the presence of change of control provisions. The costs of any renegotiation or termination of those licences needs to be considered. Where third party consents are required it may be appropriate to incorporate express provisions for the seller to obtain these consents.

**15. What IP-related warranties and/or indemnities are commonly given by the seller to the buyer in:**

- A share sale?
- An asset sale?

The warranties sought in share and asset sales relating to IP are very similar. The following are some of the most important:

- Completeness as to the disclosure of the IPRs owned, including unregistered rights.

- The company/business selling the IPRs owns the IPRs and there are no charges, encumbrances or assignments relating to the IPRs.
- The IPRs owned are all of those required to conduct the business going forward.
- Providing a complete and fully paid history of maintenance of the registered IPRs.
- Disclosure of all licences relating to IPRs and the absence of breaches of those licences by licensees, together with disclosure of all licences for IPRs not owned but used by the business, with confirmation by the seller that it has not breached such licences.
- Confirmation that no third parties have any rights or interest in the IPRs.
- Absence of litigation relating to the IPRs, including security, and absence of infringement of the IPRs by any third parties, together with disclosure of all breaches.
- Confidentiality obligations to third parties have not been breached.

These warranties will often be qualified by seller awareness and materiality to the transaction as a whole.

#### 16. How are the main IPRs transferred in:

- **A share sale?**
- **An asset sale?**

##### Share sale

On a share sale, the ownership of the IPRs should be unaffected by the change in ownership of the shares of the company. It may be that the target company will use IPRs in its business that are owned by another part of the seller's retained group. In those cases, the buyer will require the seller to put in place all necessary licences.

##### Asset sale

Rights to the IPRs owned by the business and transferred in an asset sale will be transferred by the seller by way of novation or assignment. For patents, trade marks or registered designs, the transfer will need to be registered with the UKIPO.

Where an IPR used by the business is licensed from a third party and is to be transferred, consent of the owner of the licensed IPR is normally required and any change of control provisions should be taken into account. The terms of the licence will determine if a novation, assignment or other transfer is necessary.

For both asset and share sales it is important to remember that before the buyer is registered as owner of the IPRs, issues of maintenance and enforcement may arise. It will often be agreed that the seller is responsible for any maintenance, though at the cost of the buyer, in the period before the buyer is registered as owner. Until the buyer is registered as owner it is unable to bring

proceedings for infringement. The assignment may therefore include obligations on the seller to assist with proceedings during this period.

For licensed IPRs, the buyer should consider the effect of a failure to transfer. This is particularly important where specialist tools, software or machinery are used and where replacement supply is either not available or prohibitively expensive. Specific provisions in the sale agreement dealing with insurance or liability of the seller may be necessary.

## JOINT VENTURES

### 17. Is it common for companies to set up joint ventures in your jurisdiction to develop projects that heavily involve IPRs? If yes, please briefly outline the main IP-related provisions that should be included in the joint venture agreement.

Joint ventures are commonly established for projects that involve IPRs. Where an IPR owner does not have the funding, facilities or skills to deal with development, manufacturing or distribution and sales it may choose to enter a joint venture with a partner, to develop or exploit the IPR.

The key IP-related provisions for a joint venture agreement are:

- Who owns the IPRs and the technology used in, and resulting from, the joint venture.
- What use the parties can make of the IPRs covered by the agreement, that is, the "field of use".
- Access to the resulting work of the joint venture and the protections for each party in place for this.
- Ownership and rights over any IPRs developed from the work of the joint venture, including IPRs not specifically within the scope of the work done under the joint venture.
- Confidentiality obligations.
- What termination routes exist and what happens to any IPRs on termination.
- Any territorial restrictions that may be required to avoid infringing the rights of related parties.

## COMPETITION LAW

### 18. Please briefly outline the main provisions of your national competition law that can affect the exploitation of the main IPRs.

The relevant UK legislation is the Competition Act 1998 (Competition Act), as amended by the Enterprise Act 2002 (Enterprise Act).

Chapter I of the Competition Act prohibits agreements between undertakings which may affect trade in the UK and which have the object or effect of restricting competition within the UK or part of the UK (*section 2(1), Competition Act*). Decisions of

trade associations are also covered, as are concerted practices. Concerted practices include co-operation which falls short of an agreement or decision.

The Chapter I prohibition only applies where both the restriction on competition and the effect on trade is appreciable. Whether the effect on competition is appreciable will depend on the market shares of the parties to the agreement or practice and the nature of the restriction. In this respect, the UK Office of Fair Trading (OFT) will have regard to the European Commission's Notice on agreements of minor importance (*OJ 2001 C368/13*), which sets out *de minimis* market share thresholds.

An agreement, decision or practice that falls within the Chapter I prohibition may still be lawful if it meets certain requirements and therefore is considered not to be anti-competitive (*see Question 20*).

Chapter II of the Competition Act prohibits any abuse by one or more undertakings of a dominant position within the UK, or any part of it, which may affect trade in the UK. The market can be wider than the UK, provided that the effect of the abuse is felt within the UK.

The Chapter I and Chapter II prohibitions mirror Article 81 and Article 82 of the EC Treaty, respectively, and the Competition Act provides for the two prohibitions to be interpreted according to the principles of European court judgments on Articles 81 and 82 of the EC Treaty.

In addition, the provisions of the Enterprise Act that set out which mergers are subject to review by the UK competition authorities may be relevant to the transfer of IPRs. Merger filings are voluntary under the Enterprise Act but the UK authorities can intervene where either of the following thresholds are met:

- The UK turnover of the enterprise being acquired exceeds GB£70 million (about US\$140 million).
- The transaction will result in at least one quarter of the goods or services of any description that are supplied in the UK being supplied by, or to, one and the same person.

Where revenue can be readily allocated to an IPR it may constitute an "enterprise" and the acquisition of that IPR may constitute a reviewable merger.

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**19. Please give brief practical examples of national competition law issues that can arise in the exploitation of the main IPRs (such as problematic licence terms) and briefly outline any possible solutions to manage them.**

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This is a particularly complex and constantly evolving area. It is recommended that legal advice is sought before any agreements involving IPRs are entered into. Relevant issues include:

- If the licensor and licensee are competitors (on the technology and/or product market) with a combined market share above 10%, licence restrictions on customers or territories may be anti-competitive. Below a 20% combined share, however, an exemption is available if certain conditions are met.
- For licensing arrangements between non-competitors the threshold above which issues may arise is 15% combined

market share. However, below a combined share of 30% an exemption is available if certain conditions are met.

- Even below these thresholds the licensee cannot, however, be restricted in selecting the price at which products under the licence are sold. Between non-competitors, maximum or recommended sales prices are however generally lawful.
- A ban on active and/or passive sales may be anti-competitive. However, below the thresholds mentioned above (20% between competitors and 30% between non-competitors), an exemption is available for a ban on active and/or passive sales if certain conditions are met.
- Restrictions on the licensee exploiting its own technology may be anti-competitive and will not be exempted. Restriction on either party carrying out research and development (R&D) may also be anti-competitive and will be exempted only in limited circumstances.
- A clause preventing either party from challenging the validity of IPRs, licensed or otherwise, may be anti-competitive and will not be exempted. Termination clauses in the event the licensee challenges the licensed technology are, however, exempted below the applicable thresholds for competitors (20%) and non-competitors (30%).
- Any restriction on the freedom of either party to manufacture or trade in other products must be examined very carefully.
- IP-licensing schemes entered into to settle litigation must take careful account of competition law concerns.

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**20. What exclusions or exemptions are available for national competition law issues involving the exploitation of the main IPRs (for example, are parallel exemptions available)?**

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**Block exemptions**

Agreements caught by the Chapter I prohibition (*see Question 18*) may still be lawful if they satisfy certain legal conditions. For certain categories of agreements, those conditions are set out in so-called block exemptions, which the Secretary of State can grant if he considers that a group of agreements are likely to meet the conditions for exemption.

There are currently no block exemptions relevant to IP in the UK. However, an agreement that benefits from an EC block exemption (for example, the technology transfer block exemption) will automatically benefit from a "parallel exemption" under the Competition Act. Parallel exemptions cover situations where an agreement complies with a block exemption regulation, but relates only to trade in the UK, rather than between member states.

**Individual agreements**

Outside block exemptions, the parties to an agreement must assess for themselves whether their agreement falls within the conditions for exemption. Those conditions are set out in section 9 of the Competition Act. Where the conditions of section 9 are met or a block exemption applies, the agreement is automatically exempt, with no decision being required to that effect.



Essentially, section 9 provides that the agreement must:

- Contribute to improving production or distribution.
- Promote technical progress.
- Allow consumers a just share of the benefit.

Further, the agreement must not impose unnecessary restrictions, and cannot put the undertakings in a position to be able to eliminate competition in respect of a substantial part of the relevant products.

The conditions of section 9 mirror Article 81(3) of the EC Treaty and are interpreted according to EC case law.

Behaviour that amounts to an abuse of a dominant position (see *Question 18*) is not capable of exemption. However, objective justification for the behaviour will form part of the assessment of whether an abuse has been committed.

## ADVERTISING

### 21. Please briefly outline the extent to which advertising laws impact on the use of third party trade marks.

There is limited scope for a third party to use a trade mark for comparative advertising. This is set out in section 10(6) of the Trade Marks Act 1994. Essentially, there will be no infringement where a mark is used according to honest practices in industrial or commercial matters. In other words, the use must not take unfair advantage of, or cause harm to, the trade mark.

The consolidated Directive 2006/114/EC on misleading and comparative advertising should also be considered.

## EMPLOYEES AND CONSULTANTS

### 22. Who owns each of the main IPRs created by an employee in the course of his employment? Is compensation payable in relation to employee IPRs? What main steps can an employer take to ensure it owns each of the main IPRs (for example, by including an assignment of IPRs clause in the employment contract)?

In relation to all the main IPRs, the general rule is that those IPRs created by an employee in the course of employment are owned by the employer. In relation to patents, compensation may be payable on application of the employee, where the invention is of outstanding benefit to the employer.

The law in the UK in relation to ownership of IPRs is relatively clear-cut. However, in the interests of certainty, it is always advisable for businesses to specify in employment contracts that all IPRs created during the course of employment belong to the business, and make provision for assignment where required.

### 23. Who owns each of the main IPRs created by an external consultant? What main steps can a business take to ensure it owns each of the main IPRs (for example, by negotiating an assignment of IPRs)?

For registered design and design right, statute makes clear that where a person is commissioned to create a design, the commissioner is the owner. In relation to all other IPRs, unless the consultant could be said to be an "employee" (see *Question 22*), then the consultant will own the IPR, unless otherwise agreed.

There is sometimes a fine line in distinguishing a consultant from an employee. As a result, it is highly advisable to include clear provisions concerning ownership and/or assignment of IPRs (where necessary) in any consultancy contract.

## TAX

### 24. What are the main taxes payable by a licensor on the licensing of the main IPRs (for example, withholding tax on royalty payments)?

IPRs are treated as intangible assets for corporation tax purposes. For IPRs created or acquired on or after 1 April 2002, the tax legislation taxes and relieves profits and losses on an income basis, broadly in-line with their accounting treatment.

Royalties received under an IPR licence are treated as income and are subject to corporation tax.

A withholding tax charge may, subject to any relief being available under a double tax treaty, be imposed on royalties. Specific provisions state that royalty payments for patents, most forms of copyright and design rights attract this charge, and the licensor should deduct the withholding tax from the payment and account for this to the UK tax authority (HMRC). An important limitation is that, for there to be a withholding tax charge, a payment must be classified as income rather than capital. Payments of capital sums on an assignment of patent rights are not caught (see *Question 25*).

If the licensee is based in the UK, the grant of a licence will be chargeable to Value Added Tax (VAT). Where the licensor and licensee are both based in the UK, the licensor is responsible for accounting for the VAT. Where the licensor is not based in the UK, the licensee will be responsible for discharging the VAT under the UK's reverse charge procedure.

### 25. What are the main taxes payable by a seller on the disposal of the main IPRs?

Profits from the sale of IPRs by a company that is tax resident in the UK are treated as income profits and are subject to corporation tax.

If the IPR is a balance sheet asset or is written down for tax purposes, the profits will be chargeable to corporation tax.

If the IPR is not a balance sheet asset and has no ascertainable market value (for example, if it is created by the company) the income recognised for tax purposes will be the realisation proceeds, and it is this amount that will be subject to corporation tax. There are a number of reliefs that may be claimed to defer the tax charge, for example, rollover relief where the realisation proceeds are reinvested in the acquisition of another intangible asset.

Disposal as part of a share sale attracts ad valorem stamp duty on the shares, which is not payable on an asset sale of the intangible assets.

It is unlikely that withholding tax would apply to a capital sum paid on a transfer of an IPR. However, a withholding tax charge can apply to a capital sum paid to a non-UK resident company to purchase the rights to a UK patent, if the seller is a company that would have been subject to corporation tax had income amounts been paid instead. The obligation to withhold may be relieved or extinguished under the terms of any applicable double-tax treaty.

## CROSS-BORDER ISSUES

### 26. What international IP treaties is your jurisdiction party to?

The UK is a party to all the major IP treaties, for example the:

- WIPO Berne Convention for the Protection of Literary and Artistic Works 1971 (Berne Convention).
- WTO Agreement on Trade-Related Aspects of Intellectual Property Rights 1994 (TRIPS).
- WIPO Copyright and Performances and Phonograms Treaties.
- Patent Cooperation Treaty 1970.

### 27. Are foreign IPRs recognised in your jurisdiction? Please briefly outline any relevant recognition or registration procedure for each of the main IPRs.

#### Patents

While there are treaties dealing with international patent protection, in particular the Patent Cooperation Treaty and the European Patent Convention 1973, these essentially govern procedural issues. There is currently no international or European Community patent. Applications for patents via the Patent Cooperation Treaty or European Patent Convention simply create bundles of national rights.

Therefore, an applicant needs to carefully consider in which jurisdictions it requires patent protection. A lot will depend on costs, the value of the technology to the applicant, and whether or not an applicant, or its competitors, has or intends to have a presence in a particular jurisdiction.

#### Trade marks

Trade mark owners wanting protection in the UK can apply for a UK national trade mark, or a CTM. A UK national trade mark is only enforceable in the UK, while a CTM is enforceable in the 27

member states of the EU. Trade mark owners can also apply for international protection under the WIPO Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks 1989. This can be on the basis of a UK registration or CTM.

In respect of both trade marks and designs (*see below, Design rights*), the main consideration when deciding whether to apply for national or international protection is cost. If an applicant desires protection in multiple jurisdictions, then it makes sense to apply for either Community or international protection. If protection is only required in one or two jurisdictions, then national registration may be preferable.

A further important consideration is enforcement. A proprietor of a Community right may be entitled to EU-wide relief in respect of all infringements in the EU, by the same defendant in a single action. Proprietors of national rights however, would have to bring proceedings in each jurisdiction. However, Community rights and applications are more susceptible to invalidity (CTM and CDR) and opposition (CTM only) than national applications. This is because a successful opposition or invalidity suit in one member state will make an application fail or render a right invalid in respect of all 27 member states.

#### Design rights

Design owners wanting protection in the UK can apply for a UK registered design, or a CRD, or both (*see Question 1, Design rights*). A UK-registered design is only enforceable in the UK, while a CRD is enforceable throughout the EU (*see above, Trade marks*).

## REFORM

### 28. Please briefly summarise any proposals for reform and state if they are likely to come into force and, if so, when.

The Gowers Review of Intellectual Property was published in December 2006. This made numerous recommendations as to how IP law in the UK could be improved. One of the more minor recommendations was to change the name of the UK Patent Office to the UK Intellectual Property Office, and this has happened. Other recommendations include:

- Enabling educational provisions to cover distance learning and interactive whiteboards by 2008, by amending sections 35 and 36 of the Copyright, Designs and Patents Act, 1988.
- Introducing a limited private copying exception by 2008 for format shifting for works published after the date that the law comes into effect.
- Amending section 60(5) of the Patents Act 1977 to clarify the research exception to facilitate experimentation, innovation and education.

In total 54 recommendations for reform were made, some of which have been implemented, some are under further investigation, and others are unlikely to have any impact on IP law in the UK.

# *Great Minds Do Not Always Think Alike*

*Your Company Worked Hard to Develop Its Intellectual Property—*

*We Work Just as Hard to Protect It*

Brand Protection

Copyrights

Design Rights

Patent Rights

Trademark Rights



The world's leading companies turn to Arnold & Porter LLP for help dealing with complex legal and public policy challenges for their intellectual property (IP) rights in the EU, US, and other parts of the world. We offer an innovative, integrated practice with a global perspective. The strength and quality of Arnold & Porter's intellectual property group has been recognized by a number of publications:

- Ranked as a leading Intellectual Property firm in the UK and USA by *Chambers Global 2008*.
- Ranked as a leading Intellectual Property firm in London by *Chambers UK 2008*.
- Recommended for Intellectual Property in England and USA by *Practical Law Company's Which Lawyer? Yearbook 2008*.
- Recommended for Technology, Media, and Telcoms: Intellectual Property by *The Legal 500 UK 2007*.

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