Dear ABA-IPL Members;

Welcome to the May edition of the International Associates Action Group Newsletter. We are still looking for contributors so please get in touch with me at david@gearhartlaw.com. All articles are welcome, long or short, previously published or new. If interested in becoming an editor or just want to get involved in our Action group please do let myself or Matthias Berger know. See you next Month!

Yours,
David Postolski

Welcome to our IAG October 2018 Newsletter

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The Philips SEP Decision and its Implications on India’s Patent Cases

On July 12, 2018, the Delhi High Court became the torch bearer for intellectual property yet again when it delivered India’s first post-trial judgment in a Standards Essential Patent (SEP) lawsuit in Koninklijke Philips Electronics N.V. vs. Rajesh Bansal And Ors., CS (COMM) 24/2016, CS(COMM) 436/2017 (Delhi High Court).

In the case at hand, in 2009, Philips had filed two patent infringement suits against local Indian manufacturers of DVD Video Players alleging infringement of its SEP. The patent in question, Indian Patent No. 184753, is essential to the DVD Forum Standard formulated in 1996 and subsequently adopted by the European Computer Manufacturers Association (in 2001) and International Standards Organization (in 2002). The defendants were alleged to have been importing components of DVD players, including chips from MediaTek, from China, and incorporating them in infringing DVD players sold in India under the brand names Passion and Soyer. Further, despite requests from Philips, the defendants did not obtain a license for the protected technology which eventually led to the filing of the lawsuits by Philips.

A First in SEP Cases

Although, arguably, the lack of evidentiary strength in the defendants’ arguments played an important role in the judgment, this case is nevertheless an important one for India’s patent landscape. It is the first post-trial judgment where the suit patent is a SEP – although a number of SEP infringement matters have been filed and agitated before Indian courts, i.e. the Ericsson and Dolby cases, they have either been settled amicably (after the preliminary phase) or are still pending adjudication.

Also significant is that this is the first judgment that (i) ascertains infringement of a SEP; (ii) orders defendants to pay the attorneys’ fee to the plaintiff Philips; and (iii) assesses punitive damages in a patent case.

The Outcome

The salient points covered in the final decision are as follows:

Essentiality - The court accepted the ‘essentiality certificates’ granted to the corresponding US and European patents and agreed that the suit patent was, accordingly, essential for the fulfillment of the DVD Standard. The court also analyzed that claims of the suit patent matched with claims of the US and European patents thereby confirming its position on essentiality.

Infringement - On the issue of infringement, accepting the essentiality argument of the plaintiff, the court stated that the suit patent was a SEP and that the defendants’ unlicensed product complied with the standard, thereby infringing the patent. The court also noted that the product-claim analysis of the defendants’ product by the plaintiff’s expert established infringement.

Validity - The defendant’s challenge to the validity of the patent, that the claims relate to software per se or algorithm (under Section 3(k) of the Indian Patents Act) and, therefore are unpatentable, was struck down by the Court because the written statement filed by the defendants did not plead this defense!

Exhaustion - The defendants took the plea that they were not liable for infringement under the common law doctrine of exhaustion of rights because MediaTek was an authorized licensee of Philips and they were using MediaTek chips in their players. However, the court disagreed, noting that defendants were unable to establish this fact.

Royalty - The court relied on the 2015 U.S. Federal Circuit case, CSIRO v. CISCO, 809 F.3d 1295 (Fed. Cir. 2015), in support of its decision to use the entire market value of the end-product as the royalty base. Thereafter, because, the defendants had not produced any evidence to support their contention that plaintiff’s rates were not Fair, Reasonable and Non-discriminatory (FRAND), the court accepted the plaintiff’s rates exchanged during informal negotiations and fixed the royalty at US$ 3.175 per unit, from the date of institution of the suit until May 27, 2010 and, thereafter, at US$ 1.90. The actual damages were not set out because of lack of sales data provided by the defendants, and the court appointed a local commissioner to ascertain the exact quantum of damages.
Costs and Punitive Damages – In a first for a patent case in India, the court also ordered the defendants to pay the attorneys’ fee and court fee to Philips. In addition, relying on *Hindustan Unilever Ltd. vs. Reckitt Benckiser India Limited*, 207(2014) DLT 713 (DB) (Delhi High Court), which deliberates on the law of punitive damages while referring to principles enunciated in the landmark UK cases *Rookes v. Barnard*, [1964] UKHL and *Cassell & Co. Ltd. v. Broome*, [1972] UKHL 3, the court imposed punitive damages of approx. US$ 7,300 on the defendants.

The Open Issues

The Philips decision has given us some useful precedent, but it also leaves some critical questions unanswered, leaving us longing for more!

First, the court accepted Philips’ negotiated rates because the defendants, who argued that the rates were not FRAND, did not support their contention with suitable evidence. This, however, limits the applicability of the decision to instances where one party does not offer FRAND alternatives because there is no discussion on how FRAND obligations of both parties should be determined to arrive at the royalty rate.

Second, although the court provided excerpts from several landmark cases on how punitive damages must be calculated, and specifically noted that a punitive award may be calculated “having regard to the three categories in Rookes and also following the five principles in Cassell,” there was no discussion on how the categories/principles of Rookes and Cassell should be applied.

Third, the court opined that once a threshold requirement is met, i.e., if it is determined that the damages awarded for a wrongdoing are inadequate, a punitive award may be in order. However, there is no guidance on why the court felt that the damages (which would amount to several million rupees) in the present instance would be “inadequate” so as to trigger a punitive award, particularly one amounting to approx. US$ 7,300 – a figure quite insignificant in comparison to the potential damages award.

Fourth, the court accepts the product-claim analysis of the plaintiff’s expert to establish infringement without proper claim construction or claim mapping – a procedure that is contrary to the generally accepted infringement analysis.

Fifth, on the issue of whether Philips, along with various other members of the DVD forum, was misusing its position to create a monopoly and earn exorbitant profits by creating patent pools, the court deflected the issue and held that the issue was beyond the scope of the present suit, and was best left to the Competition Commission of India (CCI) to adjudicate.

What Lies Ahead

We must now wait and see if the case goes further on appeal and what clarifications, if any, come out of that process. In the interim, the decision has stoked the SEP fire which has had a dull start in 2018.

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Belarus Amends Law on Patents for Inventions, Utility Models and Industrial Designs

The amendments to the Belarus Law on Patents for Inventions, Utility Models and Industrial Designs entered into force on July 7, 2018. The law was amended to keep up with other relevant legislative developments as well as technological advances that were made since the previous set of amendments was adopted in 2010. The law aims to simplify the patent registration process by clarifying key terms and modifying certain deadlines to the benefit of applicants.

One of the main novelties is the inclusion of public domain provisions. According to the amended law, a patent enters the public domain once it expires, is invalidated at the patent holder’s request, the legal entity that owns the patent ceases to exist, or if a patent holder dies without clear heirs or beneficiaries. When a patent enters the public domain, it may be used without the right holder’s consent and without remuneration, provided that the rules defining inventorship are respected.

The law clarifies what can or cannot be recognized as an invention. For instance, methods of medical treatment are not patentable, while computer algorithms can be regarded as inventions.

The concept of ‘dependent patent’ for inventions and utility models is introduced, referring to inventions and utility models containing another invention or utility model already protected by an ‘original patent’.

The maximum term of a utility model is now 10 years instead of eight. It is initially valid for five years and may be extended up to five years, not up to three years as before.

The list of actions not recognized as patent infringement has been broadened to include the following: using medications for preclinical research and clinical testing; studying and testing pesticides or agrochemicals for the purpose of registering them; using inventions, utility models and industrial designs in force majeure circumstances, which may include natural disasters, accidents, epidemics, episodic illnesses, etc.

The amendments clarify that invention assignment agreements must be in written form, otherwise they will be deemed invalid.

In terms of patent registration procedures, under the amended law:

The IPO should notify the applicant of the refusal decision within five days from the date the decision was issued. This deadline was not specified before.

If the applicant disagrees with the refusal decision, he may request another patent examination within four months of receiving the refusal decision. This deadline was also not specified before.

The term for the applicant to reply to a patent-related office action has been extended from two months from the receiving date to three months from the issuance date.

The deadline for the IPO to publish information related to granted patents in the Official Bulletin has been reduced from six to three months from the date of their registration. The Official Bulletin will now only be available in electronic form.

Prior user rights have been clearly defined. Namely, any person or legal entity that used a solution similar to the one protected by a patent (but created independently of its inventor) before the patent’s priority date or made all the necessary preparations for patent registration reserves the right for its further free use. The scope of the use should be defined in an agreement between the patent holder and the prior user or, in the absence of an agreement, determined by a court.

The period of insufficient use or non-use taken into account when a compulsory license is requested is now three years from the patent publication, for all patents, while it was previously five years for patents for inventions and three years for other types of IP rights.

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Registrability of Trade Marks in Canada - The Concept

Many business owners are unaware of the constraints relating to the types of trademarks that can be registered. The right to registration is not inherent in a trademark and depends upon compliance with the Trademarks Act. The Act sets out characteristics which may preclude obtaining a registration.

A brand owner must be aware of these restrictions since in some cases registration will not be possible. In addition, if there are issues relating to compliance this can add materially to the cost of prosecuting a trademark application.

A trademark is not registrable if it is:

(a) **A Name or Surname** - a word that is primarily merely the name or the surname of an individual who is living or has died within the preceding thirty years;

(b) **Clearly Descriptive or Deceptively Misdescriptive** - whether depicted, written or sounded, either clearly descriptive or deceptively misdescriptive in the English or French language of the character or quality of the goods or services in association with which it is used or proposed to be used or of the conditions of or the persons employed in their production or of their place of origin;

(c) **The Name of the Goods or Services** - the name in any language of any of the goods or services in connection with which it is used or proposed to be used;

(d) **Confusing** - confusing with a registered trademark;

(e) **A Prohibited Mark** - a mark of which the adoption is prohibited on the basis it consists of or resembles a prohibited or official mark as well as hallmarks and other well-known marks indicative of quality or origin;

(f) **A Plant Breeders’ Denomination** - a denomination under the Plant Breeders’ Rights Act the adoption of which is prohibited;

(g) **A Geographical Indication for Wine** - in whole or in part a protected geographical indication, where the trademark is to be registered in association with a wine not originating in a territory indicated by the geographical indication; or

(h) **A Geographical Indication for Spirits** - in whole or in part a protected geographical indication, where the trademark is to be registered in association with a spirit not originating in a territory indicated by the geographical indication;

(i) **A Geographical Indication for an Agricultural Product or Food** - in whole or in part a protected geographical indication, and the trademark is to be registered in association with an agricultural product or food - belonging to the same category as the agricultural product or food identified by the protected geographical indication - not originating in a territory indicated by the geographical indication;

(j) **An Olympic or Paralympic Mark** - a specified Olympic or Paralympic mark the adoption of which is prohibited by Olympic and Paralympic Marks Act.

A trademark that is not registrable by reason of paragraph (a) or (b) is registrable if it has been so used in Canada by the applicant or its predecessor in title as to have become distinctive at the date of filing an application for its registration. This is referred to as acquired distinctiveness or secondary meaning but to take advantage of the exception the applicant must file proof of acquired distinctiveness which can be difficult and expensive. There are no other statutory exceptions.

If a mark is not registrable it will be difficult, if not impossible, to protect and may not be a good choice.

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Unjustified Threats of Legal Proceedings in IP Actions in China

Similar to the provisions outlawing unjustified threats provisions under various intellectual property laws in Europe, US and Australia, such issues arise under Chinese law as well in relation to certain circumstances.

The unjustified threats provisions generally state that a threat is justified if it is shown that the act to which the threat relates was or would be infringing, which is also applied to China. Namely, a patent owner should fulfill a reasonable duty of care/prudential obligations, when sending a warning letter to the suspected infringer or its customers and potential customers, otherwise, it may constitute commercial slander or unfair competition under the PRC Anti-unfair Competition Law, as per the existing cases. In other words, unjustified threats of infringement actions are actionable in China.

Supreme Court Cases

Libang v. Mairui

In June 2011, Shenzhen Mairui Biomedical Electronics Co., Ltd. (Mairui) instructed the lawyers to issue the letters to some dealers of its competitor, Shenzhen Libang Precision Instrument Co., Ltd. (Libang), referring to that the technical solution of a variety of products produced and sold by Libang, including (portable or not) multi-parameter monitors and full digital ultrasound diagnostic system, fell within the scope of one or more Mairui’s patent rights, which constituted a violation of Mairui’s patent rights and that Mairui filed a patent infringement lawsuit with the Shenzhen Intermediate People’s Court in April 2011, and this case was already accepted by the court. The lawyer’s letter also informed the recipients that, without the permission of Mairui, the sale and offer to sale of products infringing Mairui’s patent rights also constituted a violation of Mairui’s patent rights and should bear corresponding legal liabilities, and that the recipient should immediately stop selling and offering to sell the above-mentioned alleged infringing products produced by Libang, otherwise, Mairui will pursue its tort liability according to law. Further, Xu Hang, the CEO of Mairui implied Libang’s plagiarism and infringement in an interview with the media.

The Shenzhen Intermediate People’s Court held that the case was a commercial disparaging dispute. According to the PRC Unfair Competition Law, whether Mairui constituted a commercial defamation in this case depended on whether it has carried out the act of fabricating, spreading false facts and damaging Libang’s business reputation. According to the facts ascertained, Mairui issued the lawyer’s letters to Libang’s distributors after the patent infringement cases filed by it were accepted by the court. The lawyer’s letters did not fabricate false facts and were only sent to the Libang’s distributors, but not publicly distributed in other forms, and there was no subjective intention to damage the plaintiff’s business and commodity reputation. Regarding the CEO’s statement, Xu Hang’s comments did not maliciously vilify Libang, as per the experience of daily life. The court of first instance accordingly rejected Libang’s claims and requests. The court of second instance completely supported the first instance judgement.

The Supreme Court found in the retrial process that the lawsuits filed by Mairui involved 12 suspected infringing products and 8 patents (12 products and 7 patents were referred to in the letters issued by Mairui). Among these, 1 product was determined by the court of second instance judgement as infringing one of Mairui’s patent, and 10 products was determined by the court of first instance as infringing two of Mairui’s patents.

The Supreme Court held that in this case, Mairui’s issuing of lawyer’s letters to Libang’s customers was a patent infringement warning behavior, that is, to inform Libang’s customers about the alleged infringement, request them to stop the alleged infringement and express the desire to resolve the dispute through negotiation. The patent infringement warning behavior was recognized; however, the patentee must properly issue the infringement warning, and must not abuse the infringement warning to damage the legitimate rights and interests of others and disrupt the market competition order. If the patentee sought market competitive advantage or undermined the competitive advantage of the competitor, abused the infringement warning in an improper manner and damaged the legitimate rights and interests of the competitor, the scope beyond the exercise of the right may constitute commercial slander or other unfair competition. In this case, Mairui issued the lawyer’s letters based on its valid patent rights, to Libang’s specific distributors involving suspected infringing products, for the purpose of maintenance of its patent rights. In the case of sending infringement warnings, due diligence and care should be taken to fully disclose the information necessary to determine the alleged patent infringement. It is not appropriate to identify Mairui to fabricate and disseminate false facts, only based on invalidation of partial Mairui’s patents and Mairui’s withdrawal of partial lawsuits. Mairui had fulfilled its duty of care at the time of issuing the letters. The CEO’s statement in the interview did not constitute a commercial slump, since his
statement was within the scope of commercial freedom of speech, but was not reach the level of causing misunderstanding and damaging to other’s goodwill, so it was not in violation of the law yet. Accordingly, Libang’s retrial application was rejected by the Supreme Court on 19 May 2015.

Shuanghuan v. Honda

On 16 October 2003, Shijiazhuang Shuanghuan Automobile Co., Ltd. (Shuanghuan) filed a lawsuit with the Hebei Provincial Shijiazhuang Intermediate Court and claimed that it received several warning letters from Honda Corporation (Honda), referring to the LAIBAOS-RV automobile produced and sold by it infringed Honda’s design patent No. 01319523.9 and requesting it to admit the fact of infringement in writing, stop production and sale of the car involved and apologize to Honda. Shuanghuan requested the court to confirm non-infringement.

On 24 November 2003, Honda also sued Shuanghuan for infringement of patents in Beijing Municipal Higher Court. The Supreme Court designate the Shijiazhuang Intermediate Court to jointly tried the two cases, but the merged case was suspended, until Honda’s patent involved was eventually invalidated by the court of second court on 28 September 2007. On 26 April 2008, Shuanghuan increased litigation request, by requesting Honda to compensate it for economic losses and legal/evaluation fees RMB 25,791,390 in total. On 6 July 2009, the court determined to reject Honda’s claims and order Honda to compensate Shuanghuan for economic losses RMB25,789,890.

On 26 November 2010, the invalidated patent involved was resurrected by the Supreme Court, so the non-infringement confirmation case was sent back to Shijiazhuang Intermediate Court for retrial. The Shijiazhuang Intermediate Court held that the car involved and the patented product are obviously different, in terms of main technical characteristics, so the car involved did not fall within the scope of protection of the patent right involved, and did not constitute infringement. Honda issued eight warning letters to Shuanghuan during 18 September 2003 to 15 October 2003, especially after it sued Shuanghuan for patent infringement on 24 November 2003, it still issued the warning letters to Shuanghuan’s distributors in Xinjiang, Yunnan, Zhumai, Shenzhen, Hunan, and Sichuan, which clearly exceeded the reasonable range of Patent Law and other laws. Subsequently, Honda reported the infringement lawsuit through the news media, and sent a letter to the Hebei Provincial People’s Government through its affiliated company Dongfeng Motor Co., requesting the coordinated suspension of the so-called infringement of Hebei auto companies including Shuanghuan. The above acts had exceeded the reasonable scope of rights protection and had obvious malice, which caused certain damages to the normal business activities and reputation rights of Shuanghuan, and should bear the liability for compensation. Accordingly, the court confirmed the non-infringement, ordered Honda to compensate Shuanghuan economic loss of RMB50 million (including reasonable rights protection fees).

The Supreme Court held that Honda’s issuing of eight warning letters to Shuanghuan during 18 September 2003 to 15 October 2003 was proper but its expanded issuing of warning letters to Shuanghuan’s distributors after Shuanghuan had communicated with it and both parties got to seek judicial relief was beyond the reasonable scope and violate the Un-fair Competition Law. Shuanghuan’s claim that Honda infringed on its reputation was not supported. There is no evidence that Honda’s issuing of a speech through an interview with the reporter and a letter to the relevant government smashed and derogated the Shuanghuan’s business/commodity reputation. The court of first instance’s relevant identification on malice was corrected. On 8 December 2015, the Supreme Court issued the final decision and partially changed the original decision, by reducing the amount of compensation to RMB16 million.

Requirements for Issuing Warning Letters

As per the cases above, it can be concluded that patent infringement warning letters can be issued, as one of the ways for rights holders to protect their rights and one of the links to negotiate dispute resolution, subject to the following requirements:

Legitimate Purpose

The letter should be sent only for a legitimate purpose – if the patent right owner sent the letter, without sufficient evidence or without sufficient argumentation, it might be considered by the court as commercial slander or unfair competition, if the infringement was eventually not established. In accordance with Article 11 of the PRC Anti-Unfair Competition Law, a business operator shall not fabricate or disseminate any false information or misleading information to injure the credit standing of its rival or the reputation of its rival’s commodities. In the case of Sumai v. Shuimu, the court determined that Sumai shall bear the corresponding legal responsibility, since it sent the warning letters without fully understanding the structure of the products involved but only based on product appearance photos.
Valid Patent

At the time of letters sending, the patent should be valid, otherwise, the act of issuing warning letters would be identified as maliciously arbitrarily seeking market advantage, and according constitute unfair competition.

Detailed Content

Regarding the details of the letter, the patentee shall fully disclose in the warning letter the necessary information to determine the infringement. In the case of Shuanghuan v. Honda, the court held that the patentee did not record enough information in the warning letter which cause the damage of Shuanghuan, and that the patentee was at fault, since its act was not the proper way of defending rights granted by the patent law, but unfair competition.

In order to comply with the patentee’s prudential obligations, it is recommended that the infringement warning letter include the following: 1) The identity of the patentee, including the source of the rights; 2) The specific circumstances of the patent, including the name, type, expiration date, patent claims, and the patent documents (including patent certificates, claims, specifications, drawings) authorized by the notice are attached to the warning letter; 3) The specific circumstances of the infringement of the person being warned, including the name, model, price, etc. of the product; 4) Brief summary of the characteristics of the alleged product and compare it with the patent claims to clarify that the controlled product falls within the scope of patent protection; 5) Remedies taken by the parties to the dispute; 6) Inform the warned person that the patent infringement must be stopped immediately, and clarify the legal liability and the legal provisions on which the warned person will bear.

Conclusion

Patent right owners are suggested to be cautious enough about writing and sending warning letters, in order to avoid getting into trouble. It is best to have the warning letters prepared or reviewed by lawyers, to ensure the adequate content and the proper wording, and sent out, along with filing of patent lawsuit, based on strong infringement evidence.

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New Croatian IP Legislation Abolishes Appeal Boards

Five Acts amending the Laws on Patents, Trademarks, Industrial Designs, Topographies of Semiconductor Products, and Geographical Indications and Designations of Origin entered into force in Croatia on May 18, 2018. The main change was brought by the Act Amending the Law on Patents, which abolished the Croatian Intellectual Property Office Appeal Boards (one dedicated to patent matters and one to all other IP rights matters) as bodies of second instance in all industrial property registration proceedings under the jurisdiction of the IPO. The new law provides for the possibility to file a lawsuit against the first instance IPO decision before the Administrative Court of the Republic of Croatia in Zagreb, as was the case prior to the introduction of Appeal Boards in 2008.

The Appeal Boards will continue to function until all disputes in cases initiated under the previous legislation are finalized, while all cases initiated after May 18, 2018 will be handled according to the new law.

Amendments to the Law on Patents abolish Appeal Boards for all IPO proceedings since the patent law regulated the appeal process and the establishment and functioning of Appeal Boards for all IP rights.

Appeal Boards Background

Prior to 2008, any complaints against first instance decisions of administrative bodies, including the IPO, were filed before the Administrative Court in the second instance. The Administrative Court had to issue decisions in numerous and multiple administrative areas, which slowed down the process, while the judgments only questioned the legality of first instance decisions and did not really examine cases on their merits. This is why Appeal Boards were introduced in 2008. However, several issues emerged after their introduction, including the following:

According to the 2012 amendments to the Law on General Administrative Procedure, administrative matters in administrative proceedings should be handled by public bodies, so the Appeal Boards’ authority to issue second instance decisions was questionable due to their legal status.

There was a lack of IP experts interested in being part of Appeal Boards. Indirect conflict of interest often existed among Appeal Board members because most IP experts were indirectly involved in some aspect of the first instance proceeding. IP experts were exempt from participating in case of a direct conflict of interest, that is if they directly participated in the first instance proceeding, but indirect conflicts of interest remained unresolved.

Additionally, the introduction of Appeal Boards created three instances that questioned the IPO’s decisions, the third instance being the High Administrative Court, for a relatively low number of disputes. The necessity of maintaining Appeal Boards as second instance bodies was brought into question, particularly due to the issue of economic sustainability of the state administration and legal systems.

Implications of Abolishing Appeal Boards

The new legislation ensures compliance with the Croatian legislative framework, most of all with the Law on the State Administration System and the Law on General Administrative Procedure as lex generalis in all administrative procedures.

The new legislation is also likely to contribute to independent and efficient decision-making in IP cases. It is expected that the Administrative Court will start processing IP cases in an emergency procedure, but it remains to be seen whether this will really happen. Although the legislation provides that all IP cases should be processed in an emergency procedure in court, this has never been the case in practice.

Finally, there are no longer two instances deciding on the merit of IP cases, but two instances deciding on the legality of IPO’s decisions, so it can be expected that the IPO decisions will in fact be final in the great majority of cases.

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- Present proposals to speak, moderate, or organize a program at an ABA-IPL conference, teleconference or webinar in the United States.

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