

# AMAT I VIDAL-QUADRAS

## advocats

### REPORT ON IP-RELATED MATTERS IN SPAIN

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#### Principles applicable to the awarding of damages

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The Spanish Supreme Court has recently, the 1 December 2005, laid down an important judgement in which it analysed the principles used in awarding damages in cases of IP rights infringement and acts of unfair competition.

The court of appeal had ruled against the defendant in a case concerning intellectual property and unfair competition law for infringing the plaintiff's rights. The judgement contained the following statements: *"we have no choice but to order Ovelar SA to immediately cease marketing and selling the queuing ticket dispensers with an identical configuration to the ticket dispensers from the companies Turn-O-Matic AB and Esselte SA; to recall the queuing ticket dispensers and the queuing tickets that are a blatant copy of those from the companies Turn-O-Matic AB and Esselte SA from the market and hand them over to the plaintiffs; to compensate Turn-O-Matic AB and Esselte SA for the damages caused by its conduct, as stated in legal ground six of this judgement, at the amount that will be set when the judgement is enforced; and to publish the ruling part of this judgement in two national newspapers at its own cost"*.

Ovelar asked the Supreme Court to consider whether the law applicable to awarding damages in the Patent Act and the Unfair Competition Act had been applied correctly.

The Supreme Court considered the court of appeal to be wrong in its approach to the awarding of damages. The judgement stated that *"as grounds for the compensation, the judgement indiscriminately applies precepts from both the Patent Act and the Unfair Competition Act, while they are each based on different criteria"*.

#### **Objective liability in the infringement of a patent right.**

Article 63(1) of the Spanish Patent Act states that *"whoever manufactures or imports objects protected by a patent or uses the patented process without the patentee's consent shall in any case be liable for the damages caused"*. This is one of the possible legal actions available to the patentee specified in Article 64 of the Patent Act.

The court interpreted this as follows: *"unlike that stated in article 63 ("may"), article 64 of the Patent Act grants the patentee the possibility of obtaining economic compensation "in any case"*

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*from whoever manufactures or uses the patented process without the patentee's consent". So the court considered that "this is objective liability, which is in line with the doctrine of this court for other legal situations in which inherent damages are assessed, without the need for direct proof of them being necessarily and conclusively deemed real and effective from the facts proven or acknowledged by the parties".*

With regard to the objective liability to which the Supreme Court refers, Article 66(1) of the Patent Act establishes three alternative criteria for assessing the patentee's loss of profit. The criteria used to calculate the loss of profit are based on: "a) the profits that the patentee would foreseeably have obtained from use of the patented invention had it not been for the infringer's competition; b) the profits that the latter has obtained from use of the patented invention; c) the price that the infringer would have had to have paid the patentee to be granted a licence that would have enabled it to use it in accordance with the law".

As the plaintiff had asked for damages based on loss of profit calculated as if a license had been granted, the court stated that the appeal court's decision was consistent with it. The Supreme Court stated that patent law doctrine, which is derived from objective liability, "is logical as it is perfectly possible to work out the damages caused, bearing in mind that the sales made by the infringer in theory lower the sales of the patentee and those who use the patent. It is valued according to the same logical criteria as stated in article 66 of the act, insofar as it is the equivalent of the price that would have had to have been paid for a usage licence that would have made it possible to use the patent's subject matter, up until the time the unlawful use of the product ceased, at the plaintiff's choice, which is to be calculated when the judgement is enforced, if it is not possible to do so during the proceedings".

The court clearly states that given the amount of products sold by the defendant, which in principle affects the sales of the patentee and of

those who use the patent, and the price that would have had to have been paid for a licence to use the patent's subject matter, damages can be calculated on the basis of article 66(1)(c) of the Spanish Patent Act.

### **Different principles apply to unfair competition law**

On the other hand, damages due to unfair competition are subject to the person accused of having infringed unfair competition law being specifically deemed to have intended to do so and the alleged damages must be the consequence of such activities. In its judgement on 1 December 2005, the court stated the following concerning unfair competition: "action to compensate damages caused by the act requires the infringer to be deemed to have committed wilful misconduct or negligence in order for the court to rule against it, including publication of the judgement with the need to have been previously ordered to pay damages (Judgement of the Supreme Court on 4 July 2005); in order for it to be carried out there must be proof of the damages for which compensation is requested and a cause-effect relationship between the unfair competition and the damages (Judgement of the Supreme Court on 29 September 2003)".

The court is therefore required to state why it considers the alleged damages to be the direct result of unfair competition. Publication of the judgement - another possibility envisaged by the act - is subject to the same principles.

As one can see, the Spanish Supreme Court differentiates between objective liability for damages when the infringement affects an intellectual property right and consequential damages due to intentional actions carried out by a person accused of unfair competition. It appears that these general principles will remain unchanged when the Spanish Parliament passes the bill to incorporate Directive 2004/48/EC on the enforcement of intellectual property rights, which is currently being debated in the Spanish parliament.

## **Second report of the European Commission on Directive 98/44/CE on biotechnology**

The European Commission produced a second report dated 14 July 2005 on article 16(c) of Directive 98/44/EC of the European Parliament and of the Council of 6 July 1998 on the legal protection of biotechnological inventions entitled “*Development and implications of patent law in the field of biotechnology and genetic engineering*” [COM(2005)312 final].

The purpose of this second report is to answer the two questions raised in the first report of the same title dated 7 October 2002 [COM(2002)545 final]. The conclusions of this first report stated that two points needed to be revisited: (i) the scope to be attributed to patents on partial sequences or sequences of genes which have been isolated from the human body; and (ii) the patentability of human pluripotent embryonic stem cells and stem cell lines obtained from them. In this publication the analysis focuses on the first issue.

One should first bear in mind the special features regarding patents for partial gene sequences. As an isolated substance, partial sequences are patentable whenever they meet the requirements of novelty, inventive step and industrial applicability. The requirement of industrial applicability thus fully applies in the field of biotechnology, because elements isolated from the human body cannot be exploited industrially unless they can be used and inserted into a technical process.

### **The application of the Directive**

In this second report the Commission seeks to answer the question of whether patents for gene sequences should be allowed according to the classical model of a patent claim, whereby the first inventor is allowed to claim an invention covering future uses of that sequence, or whether the patent should be restricted to the specific use disclosed in the patent application (“purpose-bound protection”).

This second approach would be more similar to the concept of *utility* which is required in the United States patent system, in which the applicant must provide one credible assertion of specific utility for any claimed invention

unless the invention has a well-established utility.

Regarding this point, article 5(3) of the aforementioned Directive 98/44/EC states that “*The industrial application of a sequence or a partial sequence of a gene must be disclosed in the patent application*”. In addition, clause (23) of the same Directive states: “*Whereas a mere DNA sequence without indication of a function does not contain any technical information and is therefore not a patentable invention*”. This is clearly corroborated by the next clause (24): “*Whereas, in order to comply with the industrial application criterion it is necessary in cases where a sequence or partial sequence of a gene is used to produce a protein or part of a protein, to specify which protein or part of a protein is produced or what function it performs*”. This is also stipulated in the Guidelines of the European Patent Office: “*In general it is required that the description of a European patent application should, where this is not self-evident, indicate the way in which the invention is capable of exploitation in industry. In relation to sequences and partial sequences of genes, this general requirement is given specific form in that the industrial application of a sequence or a partial sequence of a gene must be disclosed in the patent application. A mere nucleic acid sequence without indication of a function is not a patentable invention (EU Dir. 98/44/EC, rec. 23). In cases where a sequence or partial sequence of a gene is used to produce a protein or a part of a protein, it is necessary to specify which protein or part of a protein is produced and what function this protein or part of a protein performs. Alternatively, when a nucleotide sequence is not used to produce a protein or part of a protein, the function to be indicated could e.g. be that the sequence exhibits a certain transcription promoter activity*”.

In view of article 5(3) of the directive and its clauses it appears that the EU has decided to issue a restrictive regulation in contrast to the classic patent model in which a future use of an invention need not be bound to a previous specific utility disclosed in the patent. Otherwise, the EU would not have expressly stated in an article that the utility of the partial

sequence must be disclosed in the patent application.

In spite of these considerations, the European Commission's second report mentioned above concludes: "*there are no objective grounds for limiting the traditional protection granted by patent law to inventions relating to sequences or partial sequences of genes isolated from the human body, other issues have also been raised relating to ethics, to research and to economics*". However, on ethical grounds, since a partial sequence is actually isolated from a human body, France and Germany have implemented Directive 98/44/EC restrictively, thus providing purpose-bound protection for inventions concerning material isolated from a human body.

### **The transposition of the Directive in Spain**

On the other hand, in order to implement this Directive in Spain the parliament amended article 5 of the Spanish Patent Act through Act 10/2002 of 19 April, adding that stated in article 5(3) of the Directive: "*The industrial application of a sequence or a partial sequence of a gene must be explicitly disclosed in the patent application.*" The preamble of the act also states that in order for a partial gene sequence to be the subject matter of a patent it

must have an industrial applicability stated. However, in contrast, the Directive has not been implemented in the same way as in Germany, where the new subsection 4 of §1a) now reads as follows: "*If the subject matter of the invention is a sequence or partial sequence of a gene, the structure of which is identical to the structure of a natural sequence or partial sequence of a human gene, then its use, for which the industrial applicability has been described in concrete terms in accordance with subsection 3, is to be included in the claim*". Hence, in Germany, inventions regarding natural human gene sequences are likely to be interpreted as substance protection limited to function. Therefore, taking an example, in Germany a court would be expected to state that a claim for "protein z for the treatment of flu" does not include the sale of the same protein z for the treatment of heart attacks.

However, in Spain the situation is not as clear-cut as in Germany or France. In any case, the courts will have to interpret the legislature's intentions according to the wording of article 5 of the Spanish Patent Act, in which a different requirement concerning the industrial applicability of an invention of a partial sequence of a gene has been included by the legislature in implementing Directive 98/44/EC.

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