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WHEN WILL CHILE BECOME A MEMBER OF PCT?

- After a long process Chile is in the final stage of becoming a member of PCT, which should be applicable and enforceable by the end of March or beginning of April 2009.

Chile should have become a member of PCT by January 1 2007 in accord with the obligations assumed under the Free Trade Agreements with the United States and EFTA as well as under the association agreement with the EU. These obligations were undertaken back in 2004 and were seen as a positive signals both by local and foreign Research & Development companies (R&D) who eagerly waited for the same as it would greatly simplify the patent filing process for both of them.

To make the long story short, January 1st, came as a promise and left everyone empty handed. Why did Chile fail to meet its obligations with the US and the EU? Maybe the most simple answer is bureaucracy. A formal bill was not sent to Congress until April 10, 2007. Once in Congress the bill had to be reviewed and approved by the House of Representatives. Pronouncements from the Foreign Affairs and the Fiscal Affairs Committees were needed before voting. Both committees issued favorable pronouncements and the bill was finally approved by the House on December 4, 2007. After the bill was approved by the House, the Senate also had to review it before it was passed by Congress. In the Senate the Foreign Affairs, Fiscal Affairs, Economy and Constitution Committees reviewed and approved the bill and it was finally voted and approved on October 7, 2008.

On October 8, 2008, the approved bill was sent to the President for signing the bill into law. This process can take up to 40 days and, upon signing the same, in order to become fully effective it must be published in the Official Gazette for notice purposes.

However, in accord with article 62 of PCT once the text of the PCT is published, Chile will not effectively become a member until the treaty has been signed and an instrument of ratification has been deposited with the Director General. Once the instrument of ratification has been deposited with the Director General, Chile will not be bound by the treaty until three months after said deposit. The question remains, when can I list Chile in my PCT application? The most likely answer is late March or early April 2009 as said date would coincide with the entry into operations of the new National Industrial Property Institute which will replace the current Industrial Property Department.

It has been a long road but right now we are in the final stage of the process.



LITIGATION COSTS AWARDS IN DOMAIN NAME DISPUTES

- In five recent cases, arbitrators awarded litigation costs and expenses in favor of the prevailing parties in domain name dispute resolution processes. This change in criteria should hopefully discourage bad faith domain name filings in the future.

As a general practice, and although in some cases it was difficult to understand, domain name arbitrators were very reluctant to award litigation costs and expenses to the prevailing party. The criteria was that, given the nature and simplicity of the process, it was not necessary to award these costs, even when bad faith of the defendant had been established during the process.

However this criteria has recently changed, because in five domain name disputes handled by our firm, the arbitrator awarded litigation costs and expenses to the plaintiff. In all these cases we were able to successfully establish that the defendants had filed the domain name in bad faith, infringing trademark rights and for the sole purpose of obtaining an improper financial benefit.

Arbitrators are legally entitled to award litigation costs and expenses as the filing and dispute resolution regulations of NIC Chile (Registrar for ccTLD ".cl" domain names) tend to avoid abusive and bad faith domain name registrations. Therefore, awarding costs is consistent with the current regulations.

These recent decisions are an excellent precedent for future cases and hopefully from now on bad faith applicants will think twice before filing a domain name application that potentially infringes third party rights.

CHANGES IN PATENT PROSECUTION RULES

- A change in the Industrial Property Department authorities has brought significant changes to the patent prosecution rules which should be considered by the companies interested in seeking patent protection in Chile.

In June of this year a new Head of the Industrial Property Department (IPD) was appointed. Along with the new Head of the IPD, a new Head of the Patent Section was appointed and, subsequently, patent prosecution has undergone several changes tending to accelerate the prosecution pace of patent applications.

Most of these changes took place without any prior notice and the most relevant ones are the following:

- i. Extension requests have to be grounded (the applicant has to provide reasons which justify the need of the extension) and depending on the merits of the reasons provided by the applicant, the extension request can be granted or denied discretionarily for periods of time of up to the total amount of days allowed by the Law.
- ii. The number of substantive reports to be issued with respect of each patent application was limited to two after which a final decision has to be issued by the IPD;
- iii. Communications with experts and examiners, which had historically been very limited and restricted to special cases, are now being encouraged and promoted by the IPD.

All of these unexpected changes have been informed to applicants *ex post* by means of "guidelines" issued by the Head of the IPD. The most relevant guidelines are those referred to extension requests (guideline No 4) and to patent prosecution (guideline No. 9).

Guideline No. 9 in fact alters in some respects the prosecution rules established in the Law and thus has motivated complaints both from the Chilean Intellectual Property Association and individual Law Firms who have had to cope with the new prosecution requirements. Several meetings with the new Head of the IPD and the Head of the Patent Section have been needed to clarify some of the most controversial prosecution rules.

Among these controversial rules, we can find the following:

- i. Establishment of a new period in prosecution: the "decision stage". Within this stage, the guideline contemplates the issuance of Office Actions requiring the applicant to amend their application within a short term of 5 or 10 working days;
- ii. Proscription of abandoned applications due to lack of timely response to a substantive report (applications are no longer abandoned with the possibility of reinstatement, but are instead reviewed for a final decision -which can be a rejection decision- by the Head of the IPD);
- iii. Applicants will be formally served with (and will have the right to respond to) only the first substantive report (i.e. all subsequent reports which had not been formally served by the date of the issuance of guideline No. 9 will never be served to the applicant and will simply serve as a basis for a final decision to be rendered by the Head of the IPD). This is the most controversial rule as it is particularly prejudicial when the first substantive report (already responded) had left novelty or non obviousness analyses pending the



correction of other objections as, in principle, in these cases the applicant will not have a chance to rebut the conclusions of the expert in respect of novelty or non-obviousness.

Guideline No. 9 will surely accelerate prosecution pace for patent applications and, as a consequence, a massive amount of decisions (either granting or rejecting patent applications) is to be rendered in the near future. Grants are not problematic yet, rejections will leave applicants with the options of accepting the rejection decision, appealing the same before the Industrial Property Court, or seeking an administrative invalidation of the whole procedure under the basis that the IPD did not provide an adequate chance to defend the application. This latter option is still rather unpredictable for rarely the decisions of the IPD are controverted under general Administrative Law.

Since the terms to appeal are relatively short (15 working days counted as from the date of the decision) our firm is committed to find out the contents of all the issued substantive reports, so as to allow some extra time for our clients to determine whether they will want to continue with the appeal recourse or, alternatively, they will abandon their applications due to lack of interest.

FRANCHISING IN CHILE

- **The following article provides an overview of the current status and regulations of franchises in Chile as well the regulations that the Chilean Antitrust Authorities have considered reasonable and unreasonable in regard to these contracts.**

1. Overview of Franchising in Chile

- There are more than 120 franchises in Chile, having approximately 1000 point of sales.
- 73% are foreigners, being the most important Subway, Mac Donald's, Domino's Pizza.
- The Chilean Franchising Chamber was set up in April 2005 by a group of professional and business men connected to the franchising business. Their aim is to promote this business model in Chile

2. Franchising Regulations

- Franchise agreements must comply with the general provisions of Chilean civil and commercial law, but they are not regulated by a special statute.
- The registration of franchise agreements before a

governmental agency is not mandatory, nor the obligation to secure permits or licenses from any Authority.

- Since these contracts do not have a specific legal regulation, most of their terms will be open to the parties' autonomy, however, with two general limitations:
 - a) The franchise agreement cannot include clauses contrary to the morality, good manners, and public order;
 - b) The essential elements of the franchise agreement cannot be omitted or altered by the parties, otherwise it may result in a different contract

3. Jurisprudence

Almost all the existing regulation of franchise agreements is contained in the decisions and resolutions of the Chilean Antitrust Authorities (formerly the Antitrust Commissions and currently the Free Competition Court) which in several occasions have scrutinized these agreements, in the light of the corresponding legislation.

The Free Competition Court has the faculty to scrutinize any kind of agreements either ex officio or at party's private request, and in several occasions has issued decisions and established some guidelines concerning franchise agreements.

According to the Antitrust statute, the Free Competition Court can generally sanction those who enter into, or execute whether individually or collectively any deed, act or contract that prevents, restricts or hinders free competition or tends to produce such effects.

In general terms, the franchise scheme has been widely validated by the Antitrust Authorities which through their decisions and resolutions have defined it as a modality of production where one party (franchisor) distributes its products or services through third parties (franchisees) who identify fully with the trademark of the franchisor and pay a retribution and undertake other obligations in exchange.

The obligations that the Antitrust Authorities has considered to be reasonable to impose upon a franchisee are those connected with:

- i. The quality of the products, source of the products in the sense of establishing its origin only in the franchisor or other authorized suppliers;
- ii. Non competition agreements - In order to be considered valid, a non competition agreement must be reasonable in scope, geography, and time.
- iii. Franchisor's ability to inspect the franchisee's



accommodations or establishments and documentation on a regular basis;

- iv. In general, those ones that may be proportional to the benefits accrued by the franchisee through the use of franchisor's trademarks and know how.

The Antitrust Authorities however, have consistently objected those clauses that impose undue restrictions on the franchisee, which are not needed to fulfill the objectives of the franchise and which moreover may constitute an obstacle to the free competition. These objections vary depending on the particular relevant market and considerations about the degree of competition in said markets are always a key element of analysis. However, usually the following clauses have been objected irrespective of the particular market where the franchise will operate:

- i. Clauses that give the franchisor a unilateral power to terminate the agreement at will, without giving a reciprocal right to the franchisee.
- ii. Clauses giving the franchisor the unilateral power to appoint an arbitrator to decide any controversy between the parties.
- iii. Clauses imposing on the franchisee an obligation of not selling their premises after expiration of the franchise agreement
- iv. Clauses that limit the ability of the franchisee to eventually hire employees of the franchisor or other franchisees.
- v. Clauses that discriminate between the conditions given to the different franchisees, unless there is an objective reason that justifies such discrimination, as for example if one of them is appointed as a legal representative of the franchisor.

COPYRIGHT REGISTRATION

- **Legal protection of copyright in Chile is granted at the very moment the original work is created and does not require fixation in a tangible medium. However, copyright registration is recommendable, because it provides the holder with a presumption of authorship before third parties.**

The Chilean Intellectual Property Law (N° 17.336) protects legal rights in creative works, including software. Legal protection is granted automatically at the very moment an original work is created and it does not require fixation in a tangible medium. Therefore, to obtain copyright protection it is not necessary to

register the work.

Nevertheless, since the principle of automatic copyright protection could present some problems in establishing with a minimum amount of certainty who is the author of a given work, the law contemplates a procedure for copyright registration. This registration is generally recommended, because it provides its holder with a presumption and proof of authorship before third parties and is relatively inexpensive.

The aforesaid registration application must be submitted to the Register of Intellectual Property, together with the following documents:

- For works of literature, a printed copy of the work shall be filed.
- For works of paint, drawing, sculpture and architecture, sample drawings, blueprints or photographs depicting the work shall be filed, with relevant explanations if needed (e.g. the size and material of a sculpture).
- For motion pictures, it is sufficient to file a copy of the plot, scenery and the credits for the work.
- For photographs, a copy of the photograph shall be filed.
- For phonograms, a copy of the master shall be filed.
- For rights of performers, a copy of the performance shall be filed.
- For television or radio broadcasts, a copy of the broadcast shall be filed.
- For musical works, a copy of the lyrics and sheet music shall be filed.
- For computer programs, we recommend to file the binary images and the encrypted source code in a CD, DVD or other medium, with the corresponding instruction manuals, if any.

Notwithstanding the above, the registration of a work is required to assign its copyright, if the assignment contract is executed in Chile. This is only mandatory for the assignment of copyrights, so it is perfectly possible to license an unregistered work.

In Chile work-for-hire provisions are only limited to the development of computer programs and to some extent to journalists, photographers and authors involved in the motion picture industry. As a result, usually individuals own the copyright in their works, even if they were hired or commissioned to create such works. Accordingly, it is advisable to execute specific copyright assignment contracts between employees or independent contractors and the hiring party after works have been created and registered by the original author.