

IP Newsletter

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SARGENT & KRAHN - FIRM OF THE YEAR

SARGENT & KRAHN was the recipient, for the sixth time in 10 years, of the "Firm of the Year" award, granted by the prestigious English publication Managing Intellectual Property (MIP). The 2016 Managing IP Global Awards was held at The Savoy Hotel in London on March 10.

This award recognizes the best IP firms around the world in connection with outstanding achievements in the past year, including successful IP cases with innovative practices and client satisfaction.

We want to thank our clients for their loyalty and for entrusting our firm, with the protection of their intellectual property in Chile and abroad.

PATENT TERM ADJUSTMENTS UNDER ANTITRUST SCRUTINY

- The study of the National Economic Prosecutors Office (Fiscalía Nacional Económica) regarding competition law and patent term adjustments may trigger some legislative activity, because the conclusion that the extension of revalidation patents may improperly block competition is shared by the Ministry of Economics and several congressmen.

On February 1st, the National Economic Prosecutors Office (Fiscalía Nacional Económica) published a study regarding competition law and patent term adjustments. In essence, the study revolves around the effects that these adjustments to patents granted prior to the amendment of the Chilean Law in 2007 may have both, regarding their validity and their impact in free competition.

The study indicates that in ordering term adjustments to revalidation patents, - a special class of patents that were legally recognized until 2005 and that permitted patenting inventions that had not been worked in Chile even after expiry of their priorities - and to patents which validity term is of 15 years counted from grant, the Industrial Property Court has incorrectly interpreted the Law since patent adjustment rules should have been applicable only for patents originating in applications filed after the referenced Law amendment of 2007, which validity terms are of 20 years as of the application date.

This study, which has received wide press attention in different Chilean new outlets (including the main national newspapers), concludes stating that the patents so adjusted may improperly block competition and recommending the passing of legisla-

tion to make clear the correct interpretation of the Law. It also recommends that mechanisms to review and challenge the term adjustments of these patents should be considered.

Even though the public debate is just beginning, the Ministry of Economics as well as several congressmen have supported the study and its conclusions, so it is likely that it may trigger some legislative activity.

The study goes beyond doctrinal considerations including an exemplary table of 12 patents, which adjustments are questioned. We will be pleased to produce a translation of this study and continue to report on this matter in case it deserves your interest.

TIMINGS FOR CLAIM AMENDMENTS IN CHILE

- **The claims of patent applications can be amended before INAPI prior to answering the first substantive examiners report. It is also possible to amend them before the Industrial Property Court, but this petition should not be included in the appeal, it must be in a separate presentation filed at the Court.**

Due to several recent decisions issued by the National Institute of Industrial Property (INAPI) and the Industrial Property Court (Court), we consider that it is relevant to update the information regarding when an applicant or holder can modify the claims of their patent applications.

During the prosecution of an application before INAPI, claims can be amended up to the legal writ answering the first substantive examiners report. After this stage, INAPI has accepted modifications but in a discretionary manner.

Likewise, after INAPI's final decision, it is also possible to amend claims in the appeal proceedings challenging said decision. It is important to note however that claim modifications must be filed before the Court itself and not in the appeal recourse which is formally filed before INAPI, as the latter does not acknowledge this modification. Once the case file is formally before the Court, the applicant can request a claim amendment by submitting the new claims via a simple writ. The deadline for an amendment before the Court is the morning of the day prior to the oral hearings of the appeal recourse before the Court.

Finally, in the case of a cancellation action, two recent cases, one before the INAPI and one before the Court, have established that claims can be modified only along with the response to the cancellation action and not afterwards, as the formal discussion elements of the case are fixed by the facts and arguments in the complaint and the defendant's response.

Claim amendments are often key to overcome prior art citations and therefore it is important to keep in mind these rules in order not to miss the option due to an unseasonable request.

TRADEMARK CANCELANCTION ACTION GROUNDED ON BAD FAITH AND LACK OF ETHICS OF THE DEFENDANT

- **VIÑA TABALÍ S.A. filed a cancellation action solely based on the grounds of bad faith and lack of ethics of the registered owner of trademark TIARA. The National Institute of Industrial Property (INAPI) and the Industrial Property Court (IPC) both ruled in favor of the Plaintiff, but the case is still pending, because the Defendant filed an Annulment Recourse before the Supreme Court.**

On April 12, 2010, VIÑA TABALÍ S.A. (a well renowned Chilean vineyard) filed a cancellation action against the registration of trademark TIARA that protects "alcoholic drinks and wines" in class 33. The action was based on the following grounds: one of the partners of the Defendant, a limited liability company, was the former CEO of VIÑA TABALÍ S.A. and was aware of the interest and plans of this company to register TIARA in class 33. When the CEO finished his working relationship with VIÑA TABALÍ S.A, he filed the application for TIARA through a third party, who a few months later, assigned it to the Defendant.

In the cancellation brief, the Plaintiff argues that the actions and efforts planned by the Defendant and the former CEO, is clearly evidence that TIARA was filed in bad faith and violation of the principles of fair competition and business ethics. The Chilean Industrial Property Law does not allow the registration of trademarks under these circumstances and provides in Art. 20 letter k) that "The following may not be registered as trademarks:... k) Those contrary to moral codes, norms of good behavior and public order, including the principles of fair competition and business ethics".

The Defendant responded the cancellation action denying that the Plaintiff had plans to register trademark TIARA and that the application was filed in good faith by a third party and assigned to them, because it was available.

INAPI ruled in favor of VIÑA TABALÍ S.A on May 2, 2014, because it proved during the trial that its former CEO was involved in the original filing of TIARA, despite his knowledge that his former employer was interested in this trademark for products in class 33. Therefore, INAPI concluded that Article 20 letter k) of Law 19.039 should be enforced in this case.

The Defendant filed an appeal against INAPI's decision, before the IPC, based on the same arguments of the response against the cancellation action.

The IPC (a specialized Court of Appeals for IP matters) rejected the appeal last September and upheld the decision of INAPI. The decision of the Court specially referred to the employment contract of the former CEO of VIÑA TABALÍ S.A. that had a confidentiality clause, which included the knowledge of any trademark

during the performance of his office and that in any case the trademark was the property of his employer.

This case is not over, the final decision is pending. The Defendant filed an Annulment Recourse (*Recurso de Casación en el Fondo*), before the Supreme Court.

The Annulment Recourse is very specialized, because the Supreme Court only reviews if the decision of the IPC breached the law and if this breach had a decisive effect in the final decision of the Court.

ADVERTISING ETHICS, TRADEMARKS AND GOODWILL

- The Committee for Self-Regulation and Ethics in Advertising (Consejo de Autorregulación y Ética Publicitaria - CONAR for short in Spanish) decides conflicts between parties that voluntarily accept its jurisdiction and although it does not have the legal authority to enforce the final decisions, the parties respect them. The national wine industry, as many others, has submitted to CONAR cases that implicate the image of their products, but this recent decision is also relevant because it addresses the issue of taking advantage of a competitor's *goodwill*.

The main objective of CONAR is the self-regulation from an ethical perspective of advertisers, advertising agencies and media. The principles and rules that govern the Committee for Self-Regulation and Ethics in Advertising are found in the last edition in force since May, 2013, of the Chilean Code of Advertising Ethics. The clauses contemplate rules destined to promote a healthy competition; to avoid advertisers from confusing consumers; to sanction plagiarism of advertising work within competitors; and to protect the *goodwill* or reputation associated to the reputation of a trademark; amongst other rules.

Although it is not possible to request the forced compliance of the CONAR's ethics decisions, according to their statistics, over 95% of their decisions have been voluntarily carried out by the parties involved. In case of non-compliance, the non-performing party is exposed to media publications to account and explain their ethical infringement before all of the industry.

It is in this context that Viña San Pedro Tarapacá S.A. (VSPT) filed a complaint against the advertisement and labeling of the Viña Carmen S.A.'s PREMIER 1850 wine, since it infringed the rights that VSPT has over its 1865 SINGLE VINEYARD and 1865 LIMITED EDITION wines. VSPT claimed - among other things - that the typography and graphic representation of the numbers and the label of Viña Carmen's PREMIER 1850 wine illegitimately took advantage of the *goodwill* of VSPT's product, since the image of their competitor's new wine contained identical calligraphy, colors, number disposition and representation to those of the 1865 wine.

CONAR accepted the complaint filed by VSPT stating that there was in fact an exploitation of the *goodwill* or reputation acquired by VSPT's advertising elements since "out of all the possible alternatives of communicating the year, [Viña Carmen] made use of the one that was already being used in the market by another competitor, and it is unlikely to think that it is due to a mere coincidence. The use of the year of the foundation of Viña Carmen to justify the inclusion of said graphic element in the above mentioned terms, does not mean that it may be used in the same way and design as that used by in a competitor's product." Therefore, CONAR ruled that VSPT "has a right to defend the exclusive use of those terms with that special design."

It is important to highlight that CONAR, in addition to the aforementioned, reiterated its criteria stating that a registered trademark does not exempt the trademark owner from complying with advertising ethics - as it happened with Viña Carmen's 1850 trademark. In CONAR's words, "even though an expression is registered as a trademark, which empowers the owner to protect it and use it, does not guarantee that the use will not infringe ethical rules, since the manner and moment when it is used must be taken under consideration".

DECREE NO. 13 OF THE MINISTRY OF HEALTH - NEW REGULATIONS FOR LABELING AND ADVERTISING FOOD - WARNING "HIGH IN" CATEGORY

1. NEW LABELING REQUIREMENTS

Decree No. 13 of the Ministry of Health, which amends Food Sanitary Regulations (Regulations), was published on 26 June 2015, after a long discussion period and several versions of the amendments. The new Regulations specify that any package of food with levels of calories, saturated fat, sugar or sodium over the established limits must be labeled with a warning sign or descriptor "HIGH IN" as illustrated below:



These limits will come into force in a progressive manner, starting on June 25, 2016

2. CONCEPT AND EXTENSION OF FOOD ADVERTISEMENT

The term **advertisement** is legally defined as *any form of promotion, communication, recommendation, propaganda, information or action destined to promote the eating of a determined product.*

From a legal point of view, advertising materials are intellectual works protected by Author's Rights - that generally include trademarks of the Advertiser - and its public communication is exercised through the right of free expression in its commercial extension.

These new Regulations on labeling and advertising include a series of restrictions to the exercise of the aforementioned rights, because they limit advertisement actions regarding food "HIGH IN", as explained in the following paragraphs.

3. RESTRICTIONS FOR ADVERTISING FOOD IN THE "HIGH IN" CATEGORY

The Law on Nutritional Composition of Food and Advertisement (No. 20.606) and its Regulations establish an absolute prohibition to advertise food "HIGH IN" to children under 14 years old, regardless of the place where the advertisement takes place.

To determine whether an advertisement is addressed to children under 14 years old, the authority *might* consider, among other factors, the use of characters and childish figures, animations, cartoons, toys, infant music, people or animals that capture the interest of children under 14 years old, declarations or fantastic arguments regarding a product or its effects, infant voices, language or expressions of children, situations that represent quotidian life as school, recess or infant games.

Notwithstanding, from a practical point of view, the prohibition also extends to: (i) the advertisement of food "HIGH IN" within pre-school, primary and secondary education establishments; and (ii) in or during the transmission of TV programs or websites that capture an audience higher than the 20% of children under 14 years old, provided that such audience is measurable in a representative manner.

Additionally, the advertisement of food "HIGH IN" that is not banned, because it is not addressed to children under 14 years old, is also subject to **restrictions regarding the publicity resources that it can use**, e.g. the use of commercial hitches that are not related to the promotion of food itself such as toys, accessories, adhesives or other similar.

The Law on Food Advertising (No. 20.869) also establishes an **hourly restriction for the advertising that is not addressed to children under 14 years old**. This advertisement can only be exhibited by television and cinema between 10 PM and 6 AM, with certain qualified exceptions.

4. MAIN ISSUES REGARDING THE NEW REGULATIONS

The imminent entry in force of these new Regulations is controversial. Manufacturers, importers and product associations,

both national and foreign, have expressed their concern to the authority regarding several issues, that to date have not been solved or clarified by the new Regulations.

In our opinion, the main issues are the following:

- **Advertising**

The Regulation bans advertisement addressed to children under 14 years old. However, it is not clear whether this prohibition includes the *familiar ads* or the advertisement addressed to a non-determined age group.

Moreover, it is debatable that the Chilean sanitary authority is legally entitled to control international web sites or foreign TV signals that can be accessed by Chilean consumers, including children under 14 years old.

- **Intellectual property and trademark rights**

The Chilean Constitution protects intellectual property with the same guarantees of private property. Therefore, any restriction to the essential attributes of intellectual property (e.g. use) can only be legalized by a general or special law that authorizes the restriction justified by a public need or national interest.

In this scenario, the prohibitions and restrictions regarding the use of certain designs in the packaging and advertising of certain food, addressed to children under 14 years old, will affect the rightful intellectual property acquired by the owner of such designs, logos, symbols, and device trademarks. This restriction will have its origin in a Regulation issued by the sanitary authority and not in a law, as the Chilean Constitution requires.

Entry into force

The industry demands that the new Regulations become effective for small and medium companies (PYMES, for its Spanish acronyms) on the same date applicable to big companies. Setting a different date for PYMES is discriminatory and violates the principle of equality before the law. Furthermore, the prerogative for PYMES is grounded on the wrong assumption that big companies can adjust faster to the new Regulations, when the situation is the opposite, because they manage larger volumes of stock, contracts and licenses than PYMES.

On the other hand, the industry has requested the authority to clarify the implementation of the new Regulations regarding products manufactured and packed in accordance with the current standards, but that at the time that the new Regulations come into force, remain in stock or have been sold to different distribution channels. If the new Regulations are enforced to these products it would grant a retroactive effect to these provisions, which is forbidden. However, just a couple of weeks ago the *Contralor General* (Authority that controls legality of Administrative Proceedings) ruled that all products that are sold from the date that the new Regulations are enforceable have to comply with the labeling requirements, regardless of their elaboration date.