



# SARGENT & KRAHN®

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## IP News Letter

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### NEWS

#### Sargent & Krahn Seminar

On September 22, 2005, SARGENT & KRAHN organized a seminar on "INNOVATION AND LICENSING" that focused on innovation, transfer and licensing of technologies, the value that these add to companies, the international experience in licensing and intellectual property and licenses as a tool for commercial development.

The speakers of the seminar and their presentations are the following:

- **RELEVANCE OF LICENSING REGULATION IN CHILE**, Eleazar Bravo, Director of Ministry of Economy Industrial Property Department
- **INTERNATIONAL EXPERIENCE IN LICENSING AND INTELLECTUAL PROPERTY**, Willy Manfroy, President of LES International.
- **LICENSING IN CHILE: RECCOMENDATIONS FOR ITS STRENGTHENING**, Juan Pablo Egaña, Lawyer, Partner, Sargent & Krahn.
- **LICENSES: TOOLS FOR COMMERCIAL BIOTECHNOLOGICAL DEVELOPMENT**, Carlos H. Fernández, Fundación Chile.

For more information on these presentations, you can visit our web site: [www.sargent.cl/seminario.html](http://www.sargent.cl/seminario.html)

#### LAW N° 19.996

### AMENDMENT OF GROUNDS FOR TRADEMARK REFUSAL

- **The new Chilean Industrial Property Law N° 19.996 combines the current regulations of Law N° 19.039 and also adds new grounds for trademark refusal. Additionally, it recognizes and emphasizes the status of a famous trademark and also the use of a trademark as a valid ground for opposition.**

Article 20 letters h) and g) of Law 19.039 on Industrial Property, of 1991, provide that the

#### Inauguration of the Chilean Licensing Association (SCL)

On August 24, 2005, the Chilean Licensing Association, ("SLC" in Spanish), was inaugurated and the objectives and plans of the association were presented. This association was created to become the Chilean chapter of the LICENSING EXECUTIVES SOCIETY INTERNATIONAL ("LESI").

As mentioned in our News Letter of June, LESI is an organization with more than 11,000 members world-wide from 80 different countries, distributed in 31 national branch offices. The purpose of this association is to promote licensing of intellectual and industrial property, and to facilitate the exchange of information between universities and companies in regard to licensing matters. The business community and contact network of LESI allows the access to new business opportunities and to valuable information on best licensing and technology transfer-related practices at companies and universities.

In Chile, the newly created chapter is currently going through a process of expansion, and over fifty executives, researchers, lawyers and consultants from local and foreign companies, different universities and consulting companies have already joined the association.

If you are interested in joining SCL, or receiving more information, please contact Mr. Juan Cristóbal Gumucio: [jcgumucio@sargent.cl](mailto:jcgumucio@sargent.cl)

following trademarks cannot be registered:

**a) Art. 20 letter h).** - *Trademarks that are identical or graphic or phonetically similar and can be confused with other trademarks that are registered or applied for in the same class.*

**b) Art. 20 g).**- *Trademarks that are identical or similar or graphic or phonetically similar and can be confused with other trademarks that are registered abroad for the same goods, services or commercial and/or industrial establishments, provided they are famous and well-known.*

**The jurisprudence of the Industrial Property Department has declared that it is sufficient that a foreign trademark is famous and well-known in other countries, but its use in Chile is not a requirement.**



The new Law N° 19.996, of March 11 of 2005, "combines" the previous regulations and establishes new grounds for trademark refusal. The description of several situations is sometimes inaccurate or biased, leaves loose ends and expects that the jurisprudence will decide in several cases where the terms of the Law are rather confusing.

In accord with the new grounds for trademark refusal exclusively regarding those mentioned above, the right to oppose a third party's trademark application is recognized in the following situations:

**Trademarks registered, applied for and/or used in Chile.**

**1.- Art. 20 letter h) sub-paragraph one.-** *Those that are identical or graphic or phonetically similar and can be confused with other trademarks that are registered or applied goods, services or commercial or industrial establishments identical or similar that are protected in the same class or in related classes.*

This new regulation is an exception to the "specialty principle", applicable to trademarks because the owner of a registered trademark may oppose the registration of a trademark that is not only identical or similar in the same class, but also in other classes, provided there is a "relationship" between them, although this relationship is not defined by the law but by jurisprudential interpretation. It is understood that there must be a natural or commercial relationship between the products protected in different classes or between foods and services or between the latter and a factory or commercial store.

**2.- Art. 20 letter h) sub-paragraph two. -** *The user of a trademark that has not been registered or previously applied for, may also oppose the registration of the same trademark or of a trademark that is similar and likely to be confused.*

This provision only provides that the opponent must use the trademark. It does not require a well-known trademark. The opponent's law scope is the same referred to in the previous paragraph: same class or related classes.

**3.- Article 20, letter g), third paragraph.-** *The owner of a registered trademark in Chile, that is famous and well-known, may*

*successfully oppose the registration of identical or similar trademarks, even for different and non-related goods, services or commercial or industrial establishments, provided they have "some kind of connection" with the goods, services or establishments protected by the famous and well-known registered trademark, and provided that the applied for registration damages the interest of the holder of the famous and well-known registered trademark. The fame and reputation of the opponent's trademark will be determined "in the appropriate segment of public habitually consuming those goods ...".*

Unfortunately, the Law does not distinguish between the fame and reputation of a trademark, which are two different concepts, and it only refers to the well-known trademark within the appropriate consumer segment, not to the highly renowned trademark that transcends the limits of the classes.

The text is not accurate when referring to "non-related" lines of business, provided that there has been "some kind of connection" between them. It would seem that the concept of "relationship" refers to a natural or business relationship between different classes of goods, services or establishments, or between one another, whereas the concept of "connection" is much wider and blurred, and not only refers to goods, services or establishments themselves, but also to any other possible relationship between competing companies, their presence in the market, or any other circumstances, not defined by law.

It must be noted that the fame and reputation of a trademark is an important exception to the "specialty principle", according to which the party is only the owner of a trademark for the goods, services or establishments for which the trademark has been specifically registered. We must not forget that, as provided by our Law, the ownership or property of a trademark arises from its registration, not from its use or its reputation.

**Trademarks registered and well-known abroad**

**Article 20, letter g), first paragraph.-** *Trademarks that are identical or have a phonetic or graphic similarity and are likely to be confused with trademarks registered abroad for the same goods, services or*

*commercial and industrial establishments, cannot be registered in Chile provided that they enjoy world fame and reputation in the appropriate respective consumer's segment, in the country of the original registration.*

This regulation does not modify the provision included in Chilean Industrial Property Law N° 19.039: the foreign trademark on which an opposition is based must be registered in its country of origin, and for the same class, with which the principle of trademark specialty must be strictly complied with.

Unfortunately, the standard of this regulation is too narrow, because it does not recognize the enormous appeal of famous and well-known foreign trademarks, which, very often, leads to what is known as "trademark counterfeiting", in areas that are beyond what is inherent to the well-known foreign trademark. For this reason, any foreign opponent shall also resort to other regulations to substantiate its action, such as those prohibiting the registration of misleading or deceiving trademarks and those that arise from unfair and unethical intent, this last circumstance being very hard to prove.

This regulation fails to recognize the fact that the registration of a famous foreign trademark may be very slow and could take years. It also disregards the fact that, in very relevant countries, property rights arise from the use of the trademark, not necessarily from its registration, which debilitates this ground for refusal. However, not requiring use and reputation of the foreign trademark within the Chilean territory and just at international level, creates a very favorable situation for holders of foreign trademarks.

In the last case related to foreign trademarks, as is the case of a single user of a trademark in Chile, the Law grants the successful claimant a priority of a 90-day term to apply for the registration of its own trademark.

**PARALLEL IMPORTS AND EXHAUSTION OF RIGHTS IN CHILE**

• **The new Industrial Property Law (N° 19.996) acknowledges the international**



### **exhaustion of industrial property rights and allows the import to Chile of legitimate goods that are protected by a trademark or patent, provided that their owner, or an authorized third party, has placed these goods in the marketplace.**

We are currently living in a world where market economies are globalized and constantly opening to the rest of the world, a process that has not only brought up innumerable benefits, but that has also caused conflicts. In this new world economy, the property, control and access to creative works, designs, scientific knowledge and technologies, also bears great economic relevance, which gives place to strong competition for getting hold of these intangible goods.

A way of gaining possession of these intangible goods is through their protection as intellectual and industrial property rights. This protection system grants the owner of these rights an exclusive and excluding right for a pre-determined term and its purpose is to promote the creation of these intangible goods and their commercial exploitation within a fair competition framework.

Therefore, a contradiction arises between the protection of intellectual and industrial property rights and the free circulation of goods in international trade. The most evident example is the situation of parallel imports, since they are an exception to the exclusivity or "legal monopoly" granted to the owner of an intellectual or industrial privilege.

In effect, parallel imports are legally made by an importer other than the owner, representative or authorized dealer, in a particular jurisdiction. In other words, it is an import of goods that are legitimate in their origin, but off the official trade chain authorized by the owner of the industrial property rights.

The exhaustion of rights occurs when the owner of an intellectual or industrial right, by himself, or through a third party operating with his consent, places the goods protected by that right in the market and loses the power to prevent these goods from circulating freely in the market.

### **How and who settles these parallel import cases?**

Chilean law did not regulate this situation

nor did it establish concrete criteria for solving this problem. Therefore, there was a time when the Anti-Trust entities decided these cases, because parallel imports in Chile were presented as a matter of unfair competition. However, our legislation did not have an explicit provision that decided this issue.

The newly passed Industrial Property Law (N° 19.996), which will come into force soon, fills this void. Article 19 bis e) of the Law, provides that *"the right conferred by the registration of a trademark does not empower its owner to prohibit third parties from using the same trademark for the goods legally traded in any country under said trademark by the owner or with his express consent"*.

Additionally, Article 49 of the Law states that *"an invention patent does not confer the right to prevent third parties from trading the good that is protected by the patent, which they have legally acquired after that good has been introduced to the market in any country by the owner of the right or by a third party, with the latter's consent"*.

Therefore, and for the first time in our country, an industrial property law recognizes the international exhaustion of industrial property rights, and allows the import to our country of legitimate goods that are protected by a trademark or a patent, provided these goods have been introduced to the market of another country by the owner of the industrial property right, or with his express consent.

## **SOFTWARE LICENSES**

• **The purchase of software implies an authorization for its use, but not the ownership of the program. Therefore, it is important to verify the terms of the authorization.**

In a few decades, computers have become a tool that is essential in the business world.

All companies, both large and small, use computer programs for most of their activities, from letters and e-mails to sophisticated management and data processing systems. However, software is essentially different from the rest of the capital assets of a company, because, in general, it is not bought

(in the sense of taking possession of it), but licensed.

What does this mean? That you or your company, when purchasing some computer program, get to own its material support, for example, the CD or DVD as a piece of plastic, even its packaging, but not the software that is contained therein. The software remains the property of the company that developed it, such as, Oracle, IBM or Microsoft, among others.

**A license, then, is an authorization granted by the company that owns the software that allows a third party to use it.**

There are many kind of software licenses, and the mechanisms for determining the value of the authorization to use a computer program may be differ substantially. To exemplify this point, it is worth mentioning the following licensing systems.

**Concurrent users**, which is the most widely used licensing system, and determines the value of the license by the number of people who, simultaneously, can use a computer program;

**Specific users**, where the software is assigned to a particular individual, with first and last name;

**By machine or server**, where the software is licensed to a particular computer, irrespective of the person who uses it;

**By CPU**, which values the license depending on the number of processors that use the computer program;

**By usage metrics**, such as time of use, number of transactions or times the software is used;

**By financial metrics**, such as the income related to the use of the software; among others.

In addition, pricing on these licenses are mainly two, namely **perpetual** or **subscription**. In the first modality, a single payment is required for the use license, either by concurrent users, by CPU, or any other, and unlimited in time. As for the latter, a periodical payment is made, and if payment is suspended, the license becomes void.

Although most companies prefer the



perpetual modality, software companies usually choose the subscription model. In fact, it is expected that, by 2007, 70% of the licenses will be granted under this pricing modality. Thus, it does not turn out to be uncommon that almost 60% of software companies are content with their licensing and pricing strategies, versus just 28% of satisfaction among corporate licensees (*this data are contained in the study "Key Trends in Software Pricing and Licencing, a Survey of Software Industry Executives and their Enterprise Customers, 2006", conducted by the Software & Information Industry Association, Macrovision, SoftSummit, and the Centralized Electronic Licencing User Group*). This, undoubtedly, will exert pressure to agree on generally accepted models.

On the other hand, technology itself has introduced other problems to this equation: multi-processor computers and virtualization.

In general, computers, like human beings, have a single brain, the Central Processing Unit, or CPU. Within this scenario, licenses that were priced by CPU were, as still are, very popular. However, presently, and in the years to come, multi-processor computers will become increasingly common, with more than one single brain, much faster and more efficient, but will introduce the following paradox: if you pay X for a CPU license, and then decide, using exactly the same software, to buy another computer that is faster and uses less energy; with two CPUs, will you have to pay 2X for the same software license? Are you using that software twice? Are you using it twice as much? Evidently, you are not.

Virtualization poses a similar problem. Simply put, this is a technology that makes it possible to create virtual computers, trespassing the physical limits of the hardware. For example, a 1-CPU computer or server may virtualize in an 8-CPU computer, enabling 8 instances, say, Microsoft Windows, to be executed simultaneously, and that each one of them believe that it has a computer for itself. It is not easy to accurately envision so many real and virtual CPUs; however, truth is that this new scenario is problematic for current licensing models.

In short, it is evident that there are different software licenses, and that technologies such as the above mentioned, will further complicate the range of licensing. Therefore,

and to reach agreements on licensing and pricing, software companies and their customers should listen to each other and pay closer attention to their mutual needs. On the other hand, companies must understand that there are a number of licensing alternatives, that not all of them translate into "*contratos de adhesión*" (mass service contracts) and that the terms of use licensing should be negotiated.

## ".CL" DOMAIN NAMES WITH CHARACTERS OF THE SPANISH LANGUAGE

• **As of September 21 of 2005, NIC Chile is registering domain names that include accented vowels, dieretic (ü) and/or "eñe" (ñ). These domain names complement, and do not substitute, traditionally used domains.**

As of September 21, 2005, NIC Chile is receiving applications for the registration of domain names that include accented vowels, dieretic u (ü), and/or eñe (ñ).

These new characters applicable to ".CL" domain names respond to the implementation of "*Internationalized Domain Names ("IDN")*", which, in general terms, correspond to web addresses written in the language of the country where the application is filed.

The IDN are specially relevant in countries with alphabets different from the western one (e.g., the Chinese, the Japanese, the Greek, or the Hebrew, one), because, unlike the Spanish language, they do not share alphabetical characters with the western one, which has ruled the Internet since its beginning.

**The IDN complement and do not substitute, the originally used domain names, which remain in effect. Their advantage it to allow the registration of domain names that include characters typical of the Spanish language.**

As each local registrar decides when to implement the IDNs, each user will be able to decide whether or not it wishes to use the

new characters offered, since, as has been indicated by NIC Chile, "*the adoption of IDNs offers new opportunities for registering domain names better representing what users wish to express. When allowing the use of ñ, accented vowels, and dieretic u, the occurrence of typing errors is avoided in order to adapt to presently applicable restrictions*".

Unfortunately, during the first days of IDN registration, unscrupulous applicants have abused the system and applied for domain names without having any kind of relation with the designation and probably only want to obtain some commercial advantage from the holders of the applied trademark or company name.

**In view of the above, we suggest checking your main trademarks and names that contain, or might contain, the newly authorized characters, to protect them in a preventive way and avoid the need of litigating for the assignment of domain names.**