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Guernsey: The offshore jurisdiction of choice for intellectual property rights

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Historically, the offshore world has been known largely for its financial services industries. Perhaps unsurprisingly, as a result of recent world events many offshore financial centres are looking to diversify their economic portfolios. From Guernsey's perspective, it is serendipity indeed that an alternative income stream has been identified and is already attracting considerable interest.

In 2002 Guernsey's legislature reviewed and approved a pivotal policy document. The policy document asked the legislature to endorse the creation of a cutting-edge suite of intellectual property ("IP") legislation. The vision was of a Guernsey which would be recognised as a centre of excellence for the development and management of intellectual property rights ("IPRs").

In this article we will outline the new IP regime in Guernsey generally, before focussing specifically on patent protection.

Background information on Guernsey

The Bailiwick of Guernsey comprises the islands of Guernsey (and her adjacent islets of Herm and Jethou), Alderney and Sark, situated in the English Channel and close to the coast of France. Guernsey is a self-governing Crown Dependency. Guernsey's legislature is the States of Guernsey. Guernsey's primary legislation requires the approval of Her Majesty in the Privy Council before becomes law.

Guernsey is recognised as a significant offshore centre. Whilst Guernsey has suffered in the past from the 'tax haven' label, its inclusion on the OECD's 2009 'White List' of jurisdictions should dispel any lingering misconceptions in this regard.

The genesis of Guernsey's new IP regime

The 2002 policy document referred to above recommended that Guernsey's legislature adopt a series of legislative measures to transform Guernsey into a modern, cutting-edge IP jurisdiction. Guernsey's legislature has now passed the basic cornerstone laws which will enable Guernsey to become TRIPS compliant and Guernsey hopes to obtain TRIPS recognition in the near future. The cornerstone IP laws have drawn on a comprehensive review of other IP jurisdictions so that, for example, Guernsey's legislation for database rights has been drafted to address perceived dilution of the European database right as a result of judicial interpretation¹.

Guernsey's IP regime is contained in primary and secondary legislation. The primary legislation was enacted in *The Intellectual Property (Enabling Provisions) Bailiwick of Guernsey Law, 2004*. This Law authorised Guernsey's legislature to introduce secondary legislation (termed 'ordinances') for individual IPRs on an incremental basis, without further reference to Her Majesty in Council.

¹ *British Horseracing Board Ltd and others v William Hill Organisation Ltd* [2005] EWCA CIV 863.

The first output of secondary legislation came into force on 1 January 2006. Ordinances are now in force in relation to copyright, database rights, performers' rights, registered designs, unregistered designs, trade marks and registered plant breeders' rights.

The Law included authorisation to pass legislation in relation to patents and utility models, domain names, image rights and other intellectual property rights '*in respect of the information society*'. This umbrella-like enabling structure of Guernsey's primary legislation is advantageous. Not only does it allow Guernsey to enact ordinances very swiftly, it allows Guernsey maximum flexibility to introduce future amendments so as to keep pace with technological advances.

Guernsey's patent legislation - overview

In January 2009 Guernsey passed legislation in relation to registered patents and biotechnological inventions, bearing the formal reference title of *The Registered Patents and Biotechnology Inventions (Bailiwick of Guernsey) Ordinance, 2009* (the "Patents Ordinance").

An implementation date is awaited, with the website of the Guernsey Intellectual Property Office indicating that "*the services associated with this new law are being developed for release during the last quarter of 2009*". It is hoped, therefore, that implementation is imminent.

Once in force, the Patents Ordinance will repeal and replace *The Patents, Designs and Trade Marks Law (Guernsey), 1922* which remains in force meantime. The 1922 Law provides for secondary registration only and applications for re-registration are accepted from the UK alone. At present a UK patent re-registered in Guernsey will have protection for 16 years from the date of registration.

Under the Patents Ordinance, Guernsey will continue to be a jurisdiction of secondary registration. However, the Patents Ordinance broadens considerably the number of jurisdictions from which applications for re-registration will be considered and also widens the scope of patentable inventions. As an example, once the Patents Ordinance is in force an application for re-registration of a US business method patent could be favourably received in Guernsey, in contrast to the UK position.

Guernsey's new patent legislation – in depth

Qualifying inventions

Once the Patents Ordinance is in force, patents can be registered in respect of any inventions (products or processes) which are new, involve an inventive step and are capable of industrial application.

Unlike the Patents Act 1977, the Patents Ordinance does not contain a section limiting the scope of registrable invention; there is no equivalent to section 1(2) which excludes computer programs. This is a deliberate choice as Guernsey wished to offer protection to the computer programs excluded by the UK.

As a result, US software patents which are otherwise unable to obtain protection within Europe may well qualify for protection in Guernsey. This is a significant difference between Guernsey and Europe and enquiries thus far suggest this enhanced protection is of considerable interest to holders of US patents looking to establish a foothold.

Designated countries

The Patents Ordinance contains a list of designated countries from which applications for re-registration may be accepted. These are: Australia, Austria, Canada, China, France, Germany, India, Ireland, Israel, Japan, New Zealand, Norway, Russian Federation, Sweden, the United Kingdom and the United States of America. Applications for re-registration from the European Patents Office may also be accepted and Guernsey is free to add additional territories which give effect to the TRIPS Agreement.

Registration and application process

Only the proprietor of a patent from a designated country can be registered as such in the Register of Patents. Following the filing of an application, the Registrar can call for additional information to enable him to determine the application. The application must be published and written observations on it invited.

On receipt of an application and any written observations on it, the Registrar can only grant the application if satisfied that:

1. the patent is an overseas registered patent,
2. the person applying for re-registration is the overseas registered proprietor,
3. the invention meets the criteria for a patentable invention set out above, and
4. there are no other circumstances which make it inappropriate for the Registrar to grant the application.

If granted, a certificate of registration will be issued and the registration of the proprietor in the Register will have effect on and from the date of registration.

Revocation

Where less than 5 years has elapsed since first registration, a patent can be revoked if it appears that: (a) it has been revoked, cancelled or declared invalid in its home country; or, (b) the right in the patent has expired in its home country because it has not been extended there. A registration can also be revoked if it appears that (other than in the circumstances set out in (a) and (b)): the patent no longer qualifies for re-registration; the registered proprietor is no longer such; the registered proprietor applies for revocation; or, the appropriate renewal fee hasn't been paid.

After 5 years have passed following registration, revocation is available only in more limited circumstances, including: upon application by the registered proprietor; an order from Guernsey's Royal Court that the commercial exploitation of a patent is contrary to public policy or morality; failure to pay the renewal fee; or, on expiry of the right in the patent.

Expiry of right in patent

Unlike registration under the 1922 Law (which provided that registration was for up to 16 years), under the Patents Ordinance the right in a patent is defined as expiring when it expires in its home country or, if later, on the date when any extension granted under schedule 3 of the Patents Ordinance expires.

Schedule 3 allows for extension of up to 5 years, in 2 circumstances. The first is on the grounds of delay, where either the Registrar in Guernsey was guilty of an unreasonable delay in granting an application for registration or there was an unreasonable delay in the issuing of the patent in its home country. The second is on the grounds of unreasonable curtailment of the opportunity to exploit a medicinal product or plant protection product due to the process of obtaining marketing approval for the product. Thus there is scope for extension of the patent in Guernsey, beyond its life span in its home country.

As one would expect, there is scope for a person who becomes entitled to a patent or to an interest in it to be registered as proprietor or to have his interest noted and for modification of entries, for example to replicate any amendment in the home country of the patent. Modification can be made to record the restoration of a lapsed patent, the extension of a patent, the amendment of a specification, any limitation or the identity of the inventor.

Guernsey Patent Attorneys

The Patents Ordinance provides that anything required to be done under it can be done by a duly authorised attorney. There is provision for the creation of a Register of Patent Attorneys and for regulations to be issued concerning the registration of persons as such.

These regulations are awaited with interest by the IP community in Guernsey – it is not yet known how the Registrar will deal with the practical difficulty presented by the extremely limited number of patent attorneys practising from Guernsey. For example, will the Register be opened out to UK and European patent attorneys?

Rights given by registration as proprietor

Registration gives the proprietor the exclusive right to use the invention in the Bailiwick (the Islands mentioned in our introductory section). In relation to a product, this means the right to make, dispose of, use or import the product; similarly for a process.

Infringement

Proceedings for infringement may be brought by the registered proprietor and remedies available in Guernsey include injunctions, delivery up, destruction, damages, an account of profits and declarations as to validity of the patent and alleged infringements. An order for damages and an order for account of profits are mutually exclusive. No damages shall be awarded nor shall an order for an account of profits be made where a defendant can prove that he was not aware and had no reasonable grounds for supposing that the patent was a registered patent.

Where damages are awarded, the court will take into account the negative economic consequences to the plaintiff, including any profits lost by the plaintiff and any unfair profits made by the defendant. The court can also consider elements other than economic factors, including the moral prejudice caused to the plaintiff. Damages can also be awarded on the basis of the royalties or fees which would have been paid, had the defendant obtained a licence.

It is worth noting that a person who – before first registration – in good faith commits an act in the Bailiwick which would otherwise constitute an infringement or who makes effective and serious preparations to do such an act, has the right to continue so acting notwithstanding registration (although will not be allowed to grant a licence to anyone else to do such an act).

As one would expect, there is a remedy for groundless threats of infringement.

Conclusions on the Patents Ordinance

The Patents Ordinance represents a significant offering for patent holders. The number of countries from whom applications for re-registration will be accepted is significantly increased from the position prior to the Patents Ordinance. In particular, the addition of the US is likely to prove of considerable interest to US patent holders. The broader scope for registrability compared to, for example, the UK position is also (already) proving to be of great interest, even although the Patents Ordinance is not yet in force.

Further developments

The Patents Ordinance does not deal with utility models. This was an area which the 2004 enabling Law specifically authorised Guernsey's legislature to pass an ordinance. According to the website of the Guernsey Intellectual Property Office², the review which resulted in the Patents Ordinance also included scope for legislation in relation to utility models (by then the terminology had changed to 'innovation warranties').

² 2007 Review of Intellectual Property Rights in Guernsey

Having worked so hard to create a highly advanced IP environment, one anticipates that such legislation will be high up on the 'wish list' of the Intellectual Property Office. Based on offerings from other jurisdictions such as Australia (with its innovation patent model) and Germany (with its utility model), it is likely that any offering from Guernsey will seek to combine the benefits of those offerings, without (it is hoped) their limitations.

It is therefore hoped that Guernsey's offering will introduce protection for inventions which are not sufficiently inventive to meet the inventive threshold required for standard or full patents, with a registration process which is less expensive and more straightforward than for a full patent. Readers interested in tracking progress in Guernsey's IP regime generally can find news on www.ipo.guernseyregistry.com.

Why hold IPRs in Guernsey?

We conclude by exploring the reasons why your clients might be interested in holding their IPRs in Guernsey.

From a business perspective, Guernsey's corporate tax regime underwent a substantial change in 2008, as a result of which the standard rate of tax applicable to most Guernsey companies is 0%, with some exceptions, for example in relation to profits derived from banking activities.

On a broader level, Guernsey's sophisticated infrastructure includes a suite of corporate vehicles which offer enhanced business flexibility as compared to other jurisdictions.

Vehicles and structures for holding Guernsey IPRs

Trusts

Guernsey has long been a prime jurisdiction for the formation and management of private trusts, which can be useful tools in the creation of off-balance-sheet structures. In this regard, Guernsey introduced new legislation in relation to trusts in 2007 which allows a much more flexible approach to holding assets in a trust structure.

Protected cell companies

The protected cell company (PCC) was pioneered in Guernsey in 1997³. A PCC is a company, a single legal entity. However, the company is made up of a core and a number of ring-fenced, protected cells. The advantage of the PCC is in the segregation of assets and liabilities- the assets of one cell will not be available to creditors of other cells in the event of insolvency. A PCC structure is therefore ideally suited for entities involved in product development, in view of the scope for isolating and managing R&D and product development risk.

Incorporated Cell Companies

In 2006 Guernsey introduced legislation creating a similar structure known as the incorporated cell company (ICC). As with a PCC, an ICC will have cells. However, each cell is a separately incorporated and distinct legal entity.

Why might one use an ICC rather than a PCC? The ICC structure may allow the cells to exploit their status as independent legal entities, for example by the cells contracting with each other, which might be useful for the purpose of licensing agreements.

³ The Protected Cell Companies Ordinance 1997 (as amended).

Conclusion

Guernsey considers that it offers a unique environment for IP protection and exploitation, compared to other offshore and indeed some onshore jurisdictions. With TRIPS cornerstone legislation in place, Guernsey's attention can now turn to the enhancement of the groundbreaking IPRs which were foreshadowed in its enabling Law of 2004. Watch this space.