

Software Protection In Israel

BY NATHAN WEISSMAN*



Another chapter of international cooperation being prepared cooperatively by L.E.S. committees around the world

The scope of the intellectual property protection accorded computer software under Israeli law remains uncertain, despite the fact that the software industry in Israel is rapidly growing, competitive and dynamic domestically and internationally. While some strings have been tied, the Israeli legislator has only recently begun to take concrete legislative steps to clarify the status of computer software. Further, reported judicial decisions concerning intellectual property protection of computer software have been few, and when the courts have been called upon to decide, they have done so cautiously and with careful attention paid to trends in the United States, the United Kingdom, and elsewhere.

As a result, legal issues, legislative and judicial, abound. This uncertainty presents a challenge to those who are called upon to give advice and counsel in the area of intellectual property protection of computer software. It puts a premium on creativity and flexibility. This underlying reality must be kept in mind by all whose business in Israel involves software-related issues.

Against this backdrop, this summary will discuss generally the legal framework in Israel with respect to the intellectual property protection of computer software, and highlight those issues that have received explicit judicial or legislative attention.

PATENTS

Patentability

The patentability of computer

software under Israeli law turns on whether the subject matter of a patent claim containing a computer program is deemed to be a mere mental step, scientific truth, or algorithm. Section 2 of the Israeli Patents Law, 3337/1967, defines a patentable invention as "a(n) invention, whether a product or a process, which is new, useful and susceptible of industrial or agricultural application, and which involves an inventive step..." Thus, if computer software is deemed a mere mental step, it will be judged to fall outside of the scope of patentable subject matter. If not, there should be no inherent bar to its patentability.

To date, however, Israeli law has furnished no definitive answer to the question of patentability of software. None of the courts of general jurisdiction has addressed the question, and the Patent Commission has published only one decision, of limited precedential value, dealing with the issue in *Horowitz Inc. Application No. 2774*. Selected Decisions of the Commissioner of Patents, Designs and Trade Marks, 1971/1974, Part I (1974) translated into English¹.

Relevant

In *Horowitz*, the Commissioner overruled the decision of the patent examiner and granted a patent for a computer device that displayed on the screen situated before the pilot the dimensional lines of profiles that by the pilot, thereby enabling the pilot to fire at enemy aircraft at the instant that the target aircraft intersects the focus on the display. The examiner had previously rejected the patent application on the ground that the claimed purpose of the device was not novel, while the "means" for achieving the patent, albeit novel,

merely described an implementable algorithm.

In reversing the examiner and ruling in favor of patentability, the Commissioner was careful to narrowly circumscribe the scope of his decision:

[This decision does not intend to decide] complicated general problems whether a computer program is a patentable invention under Section 2 of the Law. The problem before us has related to one computer and I shall quote a very careful remark that in the device, which, however, only in deposits are later on:

In reaching his decision, the Commissioner surveyed the pertinent and not always consistent legislation it was in 1976 in the United Kingdom, Australia, Switzerland, France, Germany, the United States, and Holland with respect to the patentability of a computer program. In particular, the Commissioner noted the decision of the United States Supreme Court in *Gottschalk v. Benson*, 409 U.S. 63 (1972) (the only country whose Supreme Court has established a clear position on the question of computer programs), in which it was held that an algorithm was not patentable because it was a mere mental process. He also pointed out the close similarity between Section 5 of the Patents Law and Section 101 of the United States Patent Act of 1952.

Despite the *Gottschalk* decision and the similarity between the United States and Israel patent statutes, the Commissioner in *Horowitz* ruled in favor of patentability while at the same time carefully cautioning any general holding concerning the patentability of a computer program. By giving the applicants the "benefit of the doubt," the Commissioner concluded that the value

*Seydov T. Giff and Co., Ramat Gan, Israel.

lators called for in the claim were not mere mental steps and therefore patentable. This was because, according to the Commissioner, it was not "possible to make the calculations made by the computer also with paper and pencil" because if the "job would make the calculations . . . with paper and pencil, the answer's amount will no longer be located on the point on which the calculations were based, so that the purpose of the invention will not be attained."

As noted, since the Harariell decision, there have been no published judicial or administrative decisions in Israel regarding the patentability of computer programs. The absence of more recent decisions on this subject is in contrast to the situation in many other countries, including in the United States.

Thus, the so-called certainty of the Gottlieb decision has given way to the holding by the United States Supreme Court in *Diamond v. Dieck*, 450 U.S. 175 (1981), whereby explicit recognition was given to the principle that a computer program that is part of a process will not preclude the patentability of the subject-matter of the claim — so long as it is not the essence of the claim.

However, the Israel Patent Office has indicated that the *Dieck* rule has not been adopted in Israel, and that the Israel Patent Office will be less likely than its American counterpart to allow a patent claim concerning in part a computer program. How much "less likely" is not clear, however.

Thus, the patentability of computer programs under Israel law (as best be described as unproven), Patent claims will continue to include computer programs, and the Patent Office will continue to decide on the patentability of such claims, but without the benefit of any clear guidelines.

Protection and Remedies

The grant of a patent under the Patents Law confers upon the patentee the right to exclude others from exploiting the invention throughout Israel during the term of the patent. The term of a patent

is for 20 years commencing from the date on which the patent application is filed, although no protection is accorded until the patent actually issues. One can expect that examination of a patent application will take at least three to four years, although under appropriate circumstances, one may petition for an expedited examination.

Israel is a "first to file" country, subject to the priority given to a patent application filed in Israel within 12 months of the initial foreign filing, if a member country of the Paris Convention for the Protection of Industrial Property.

Both injunctive relief and monetary damages for patent infringement are available upon a full trial. In addition, a preliminary injunction may be obtained upon a proper showing. Only the patentee or the exclusive licensee may bring an infringement action.

Courts in Israel have not embraced the test for invention called for, established by Lord Diplock in the American *Grain Processing, v. Efron* Case, [1971] R.P.C. 511, whereby the court inquires into whether the plaintiff has merely stated an arguable case, and if so, in whose favor the balance of convenience lies. Instead, courts in Israel will continue to require showing of likelihood of success before considering the balance of convenience.

The Patents Law does not explicitly provide for an allegation of indirect or contributory infringement, and no reported decisions under the Patents Law has addressed the issue. However, it should be pointed out that in the case of *Reiser-Fuchsman v. Gordon-Paglin and Son Ltd.*, 5829 Pctel Div (Judgments) of the Supreme Court of Israel (1982) (1984) (in Hebrew), the Israel Supreme Court, relying upon the mandatory provisions in the Patents Law, expressed doubts about the validity of a claim based on contributory infringement.

Learning Priorities

While no data are available, for the same reasons that make learning attractive elsewhere, patent learning is accepted commercial practice in Israel. The Patents Law contains various provisions that

specifically relate the patent licensee.

Thus, the Patents Law explicitly provides for both exclusive as well as the nonexclusive licensee. An exclusive licensee grants to the licensee the right to prevent third parties as well as the patentee himself from exploiting the patent in Israel. A nonexclusive licensee confers upon the licensee the right to exploit the invention in Israel in accordance with the terms agreed upon by the parties. No licensee — exclusive or nonexclusive — will be valid with respect to third parties unless it is recorded with the Israel Patent Office.

If a patent is jointly owned, the consent of all the joint owners is required by the Patents Law to confer a license. However, even in the absence of such consent, an application may be filed by less than all of the joint owners seeking a court order requiring the grant of a license.

In addition, the Patents Law provides for the grant of a nonexclusive compulsory license for abuse of the patent monopoly. The grounds for abuse are a failure to supply the demand for the product in Israel, setting conditions for the supply of the product under the patent or for a license for the manufacture or use thereunder which are unfair and contrary to the public interest, restriction of the exploitation of the patent in Israel by way of manufacture, in whole or in part, owing to importation of the product, non-manufacture of the product in Israel, or refusal to grant a license which results in adversely affecting export of the product from Israel or prevents the establishment of a commercial industrial venture in Israel.

A compulsory license may also be granted in answer to the public's inassurably quantity of a medical supply, or to enable the exploitation of a new patent by permitting the working of an earlier one, provided that the later invention serves a different industrial purpose or constitutes a considerable advance thereon. No application for a compulsory license may be filed until the later of the expiration of three years from the date on which the

patent was granted, or four years from the date on which the patent application was filed.

COPYRIGHT

Copyrightability

Recently, it appears that the basic issue of whether software is copyrightable under Israel law has been settled. In late July 1989, the Knesset (the Israel Parliament) enacted an amendment to the Copyright Ordinance (Amendment No. 3 of 1989, *HaKnesset* 1989, July 27, 1989) (in Hebrew) providing that the law applying to a literary work under the Copyright Act of 1911 shall also apply to computer software.

Copyright in Israel is still principally governed by the provisions of the British Copyright Act of 1911 (Copyright Act), which was adopted by the Mandatory Government of Palestine in 1924, and by a small number of additional provisions as contained in the so-called Copyright Ordinance. By comparison, the 1981 Act was replaced in the U.K. by the Copyright Act of 1976.

Prior to the recent amendment, the copyrightability of computer software remained in doubt. On the one hand, the language of the Copyright Act does not mention computer software per se. Under the Copyright Act, copyright subsists in both published and unpublished original literary works. Section 25 thereof sets forth an inclusive list of protected literary works — "maps, charts, plans, tables, and compilations" — qualified since the original 1911 enactment and not including software.

However, with one exception (see below), there was no published decision in Israel regarding whether software could be accorded copyright protection as a literary work in analogy to the inclusive list of works contained in Section 25. This is not to say that lawsuits were not being filed alleging copyright infringement of computer software. They were, and apparently continue to be so in increasing numbers. However, these lawsuits were presumably being resolved by settlement or disposition of by preliminary injunctions without an opinion

being published. Thus, the situation in Israel was such that the practice remained out in front of the published law.

It was not until 1986 that the only reported decision on the copyrightability of software, *Apple Computer v. I. N. N. Computer* (Apple Computer Ltd., Div. Cas. 3021/84 (in Hebrew) (Apple Computer), was rendered. The District Court for Tel-Aviv-Jaffa, relying heavily on decisions from other common-law countries, held that software was copyrightable as a literary work under the Copyright Act, be it either in object code or in source code, and irrespective of whether the software was written and imprinted onto a disk or was stored in ROM form. However, the reasoning of the Apple Computer court was questioned by informed observers, who expressed doubt that the decision correctly construed the language of the Copyright Act with respect to the interpretation of protected literary works.

While it would appear that the recent amendment to the Ordinance has resolved the question that occupied the Apple Computer court concerning the copyrightability of software per se, it should be noted that the amendment does not contain a definition of what is meant by "computer program" (i.e., e.g., the definition of "computer program" which was added by amendment in 1980 to Section 2(1) of the U.S. Copyright Law of 1976.) One can anticipate, therefore, that this apparent lack of legislative guidance concerning the scope "computer program" will focus judicial attention in Israel away from the question of whether computer programs are copyrightable — the district is now "yes" — and toward the question of what precisely is included within the scope of the statutory term.

Indeed, it is as yet unpublished decisions rendered in mid-February 1990 by the District Court for Tel-Aviv-Jaffa, *Adinot v. I. N. N. Computer* (I. N. N. Computer Ltd., Div. Cas. 3211/89, the court, ruling under the law in effect prior to the aforementioned amendment to the Ordinance, construed copyright infringement of software to include not only copying of the actual com-

puter program, but also copying of an idea referred to as the results of the earlier stages of development — i.e., defining the program's requirements and designing the software. Whether the Adinot opinion, like its forerunners with the amendment to the Ordinance, forbids the adoption in Israel of what has variously been called in the U.S. "look and feel" analysis for "structure, sequence and organization" doctrine, remains close attention.

The amendment must also be seen against the backdrop of additional legislative activity in the area. A committee appointed by the Minister of Justice has for several years been preparing a new draft copyright law to replace the Copyright Act. While the status of this committee is currently uncertain, it is conceivable that the committee could still complete its work and include its own provision for the protection of computer programs.

Another ministerial committee has been preparing the draft of a so-called computer law. If such a law is ultimately enacted, it is reasonable to assume that it will deal with computer programs, either in terms of copyrightable protection or by providing some form of sui generis protection. Thus, in the event that either of these more general statutory schemes is enacted, the scope and perhaps even the continued validity of the recent amendment could be called into question.

Ownership

Ownership under the Copyright Act subsists from the date of first publication of the work, or, in the event that the work is unpublished, from the date of its making of the work by a citizen or resident of Israel. Ownership typically extends for a term of 70 years plus the life of the author. There is no registration, deposit, or notice requirements under the Copyright Act.

The general rule under the Copyright Act is that the author of a work is the first owner of the copyright. However, where the author was in the employment of some other person under a contract of service and the work was made in

the course of his employment, and there is no agreement to the contrary, the employer shall be the first owner of the work.

There is apparently no reported decision under the Copyright Act concerning the "work-by-employer" doctrine in the context of software ownership. The general principles of the doctrine — as it has developed under English jurisprudence — are scattered throughout a legion of not fully considered decisions. The practical upshot in that jurisdiction is that parties involved in software development should be careful to enter into a written agreement setting forth clearly in whom the copyright in the software shall belong.

License

The Copyright Act provides that the owner of the copyright in a work may license the right in whole or in part. To be effective, the license must be in a writing signed by the licensee. In practice in Israel, as elsewhere, most dispositions of software are couched in terms of the grant of a license. Unlike the Patents Law, the Copyright Act makes no distinction between exclusive and nonexclusive licenses.

The Copyright Act does not make clear whether an exclusive license can sue for infringement (either in his own name or joined with licensee), or whether only the licensee can sue. Section 6 states: "Where copyright in any work has been infringed, the owner shall . . . be entitled in all such remedies as are or may be conferred by law. . . ." U.K. jurisprudence construing this section of the Copyright Act did not resolve whether "owner" includes an exclusive licensee, and Israeli courts have apparently not addressed the question. (23) With the 1994 Copyright Act in the U.K., wherein an exclusive licensee was given explicit an right of suit.)

Protection and Remedies

Assuming copyrightability, a computer program will be infringed by any unauthorized reproduction thereof. In addition, the Copyright Act provides for suit in the case of sale or hire, exposure or offer for sale, distribution, exhibition or importation by a person of any

work that to his knowledge infringes or is a substantial copyright.

How far the Copyright Act extends in prohibiting the "reproduction" of a computer program is uncertain. In particular, courts in Israel have not yet addressed whether: (1) it will extend the notion of reproduction to include the so-called "look-and-feel" approach adopted by several U.S. courts (see, e.g. *Phillips, Inc. v. Inso-Dental Laboratory, Inc.*, 797 F.2d 1222 (Ced Cir. 1986), cert. denied, 93 L.Ed. 2d 834 (1987)); (2) whether it will include adaptations of programs from one type of computer to another (e.g. from Apple Macintosh to IBM PC), or from one level of operating language to another (e.g. from computer to assembly).

Injunctive relief as well as accounting and damages are available in the event of infringement. Injunctive relief includes temporary as well as permanent injunctions. An innocent infringer shall be liable for injunctive relief only upon a showing that he was not aware that copyright subsisted in the work as of the date of the infringement.

The Ordinance further provides for criminal sanctions for certain acts related to the licensing, sale or lease of an infringing copy of a protected work. By virtue of the recent amendment to the Ordinance, the prescribed penalty for the commission of such acts is now imprisonment for a period of three years and a maximum fine in the maximum amount of more than 100,000 New Israeli Shekels (ca. 400,000).

Further, the Ordinance — introduced by the U.S. Copyright Act of 1976 — was amended in 1989 to provide for statutory damages in the current amount of not less than 2,000 New Israeli Shekels (ca. \$2,000) and not more than 10,000 New Israeli Shekels (ca. \$10,000) for infringement where no actual damage can be shown.

Israel is a signatory to both the Berne Convention and the Universal Copyright Convention, and also has entered into a bilateral copyright treaty with the United States. Thus, a foreign author seeking copyright enforcement of his software in Israel will have to look to the terms of the Copyright Act for

protection.

TRADE SECRETS

There exists no separate trade secret statute under Israeli law. A major review of trade secret law in Israel (N. Telesnicki, "Trade Secrets," *HaPrakti*, 25:1 (1980) (in Hebrew)) identified more than 20 possibly statutory bases, both civil and criminal, for affording trade secret protection, depending upon the circumstances. In addition, trade secret protection has been judicially recognized by the Israel Supreme Court. The basis for granting trade secret protection has been variously described as a quasi-property right, a contractual right, and a fiduciary right. See *Bar Shoch IM et al. v. Angor et al.*, 25 P.D. (2) 817 (1980) (in Hebrew).

There is no single definition of trade secret in the law, and the scope of the term seems to depend upon the particular context. Given this approach, computer software — including its underlying principles, logic, organization and structure — could conceivably qualify as a trade secret. However, as reported decisions have apparently dealt with the question of the extent to which software is protectable as a trade secret.

The most that can be said, therefore, is that the application of the law of trade secrets to the use and protection of software remains virtually unexplored under Israeli law. Thus, while trade secret protection is sometimes vested in software licensing agreements, and it is recommended to do so, the legal effect of such provisions remains uncertain.

UNFAIR COMPETITION

There is no general prohibition against unfair competitors under Israeli law. A bill (purporting to regulate unfair competition) was introduced in the Israel Parliament in 1972. However, it was not adopted and there have not been subsequent attempts to pass similar legislation.

Section 39 of the Israel Civil Wrongs Ordinance (New Zealand provides for a narrow cause) of un-

tion based on "passing off." A cause of action for "passing off" lies when "any person who by imitating the name, description, sign, label or otherwise, causes or attempts to cause any goods to be mistaken for the goods of another person, so as to be likely to lead an ordinary purchaser to believe that he is purchasing the goods of another person...."

In the Apple Computer case, the plaintiffs unsuccessfully alleged passing off by the defendants in the external appearance of their competing computers. No claim of passing off was made with respect to the competing software *per se*, and it is difficult to imagine a set of circumstances whereby a claim for passing off could be raised in that context.

TRADEMARKS

Rights and Registration

The Israel Trademark Ordinance (New Version) 5733-1972 (Trademark Ordinance) was modified in 1977 by incorporating the original 1958 Mandatory Trademark Ordinance, as amended, most notably in 1965. The Trademark Ordinance provides protection for trademarks and service marks in respect of goods and services, respectively, upon registration of the Trademark Register. While there is no explicit case law on the point, it is widely believed that no rights can be alleged in a common-law trademark, i.e., an unregistered trademark.

A "mark" is defined by the Trademark Ordinance as "letters, numerals, words, devices or other signs, or combinations thereof, whether two-dimensional or three-dimensional." A "trademark" is defined by the Trademark Ordinance as "a mark used, or intended to be used, by a person in relation to goods for manufacture or distribution." No exception has been made for excluding software from the scope of this definition. Thus, a trademark used in respect of software is registrable provided that it satisfied the requirements for registration.

A trademark may be registered if it is capable of distinguishing the goods of the trademark applicant

from the goods of others. Actual use of the trademark prior to the filing of an application is not required, although there must be a bona fide intent to use the mark.

In general, a trademark is accorded priority in Israel from the date of application. However, as indicated previously, Israel is a member of the Paris Convention. Therefore, a foreign trademark application will enjoy priority in Israel if it is filed in Israel within six months from the date of the filing of the initial application in the applicant's country of origin.

In addition, the Trademark Ordinance contains a *trile qdelle* provision by which a registrant in a foreign country can obtain an equal standard for registration in Israel. In practice, registration under the *trile qdelle* provision is considered a weaker form of registration, and is refused upon only when a foreign trademark would otherwise be denied registration under the Trademark Ordinance. A registration granted under the *trile qdelle* provision is specifically identified as such on the Trademark Register.

The registration process in Israel can take three to four years. Examination can be expedited, however, upon a special showing such as strong evidence that the applicant marks breach the standard for registrability. Prior to registration, an applicant who seeks redress for infringement of his mark can rely on the passing off provisions of the Civil Wrongs Ordinance, as discussed above.

The initial term for trademark protection is seven years from the date of the filing of the application. Thereafter, registration can be renewed for additional periods of 14 years. Temporary as well as permanent injunctive relief is available against infringers, and damages can also be had upon an appropriate showing.

Trademark licenses are governed by the so-called registered user provisions of the Trademark Ordinance. Under these provisions, a trademark proprietor may license use of his mark in Israel upon approval by and registration with the Trademark Office.

The practice in concluding a user agreement is to file an application together with a copy of the license agreement itself (or a short-form license). The application is then reviewed by the Trademark Registrar who may approve, deny or request changes to the license agreement. There is no hard-and-fast set of guidelines covering registered user agreements. Typically, however, if one shows unconvinced by the licensee over use of the mark by the licensee, and there is no public policy considerations to the contrary, renewal of the license can be expected.

At least one Israel Supreme Court case, *Davidovich v. Shavit et al.*, 25 P.D.1, 765 (1975) (in Hebrew) could be understood as holding that in unusual circumstances, the refusal to approve the application for renewal of the user agreement can also invalidate the underlying license. However, as a general matter, software is rare, and it is doubtful in light of later Supreme Court jurisprudence whether the court would today invalidate the underlying license agreement.

Unlike other common-law jurisdictions, the Israel Supreme Court in *Amptel Shofti Ltd. v. Karim*, 37 P.D. 5, 780 (1985) (in Hebrew) has held that the licensee-registered user has no right to use in its own name for trademark infringement. In that case, the licensee in effect joined with the alleged infringer against the registered user of the mark in Israel. The *Amptel* court, construing the plain meaning of the Trademark Ordinance, held that only the licensee-proprietor could sue, regardless of the unusual facts of the case. While the *Amptel* decision has been strongly criticized, it will remain the controlling law.

The intellectual property protection accorded software under Israel law remains in a state of flux. Many lawyers will exist. As a result, questions that can be posed with great particularity allow only a partial or an uncertain answer. This makes it even more crucial that anyone contemplating a transaction in Israel involving software consult with local counsel to obtain the most up-to-date information on matters of concern.