Hammonds

COMMERCIAL AND INTELLECTUAL PROPERTY LAW BULLETIN

November/December 2009

Please click on the following links to go directly to your area of interest:

This month's bulletin includes a review of a case in which the High Court held that an unreasonable sub-clause in an exclusion clause rendered the entire clause unreasonable and unenforceable and a look at the High Court's first reported application of the *L'Oreal v Bellure* ruling in a section 10(3) trade mark infringement case.

The Bulletin will return again in January. We wish everyone a Merry Christmas and a Happy New Year.

COMMERCIAL

Back to Top

High Court finds that 'direct losses' fall outside exclusion clause

In *GB Gas Holdings Limited v Accenture*, the High Court considered whether items of GB's loss from a breach of warranty were direct or indirect losses and whether they were irrecoverable under an exclusion clause.

Facts

GB Gas Holdings was a subsidiary of Centrica and a supplier of gas and electricity to residential customers in England and Wales (C). In January 2002, C and Accenture (A) entered into a contract pursuant to which A agreed to design, supply, install and maintain a new IT system (the Jupiter System), including an automated billing system. The IT system was to be delivered in 5 software releases, the third of which (Release 3) was to be the billing system.

Recital A of the Agreement provided:

> "*C has instigated a programme to improve its ability to provide excellent customer service, retain customers, cross sell to them within C's Group and increase market share. This programme is referred to as 'the Jupiter Programme'*"…..

The Agreement contained the following warranty at clause 15.2.2:

> "…*for the relevant Warranty Period*
>
> *(i) a release will be free from material design and material programming and material implementation errors;*
>
> *(ii) a Release will meet in all material respects the Statement of Release Requirements to give C the capability to achieve competitive advantage*".

The Agreement also contained the following exclusion clause at clause 16.2:

> *16.2 Consequential Loss*
>
> *Subject to Clause 16.7 or as otherwise expressly provided in this Agreement, in no event shall either Party be liable whether in contract, tort (including negligence) or otherwise in respect of any of the following losses or damages:*
>
> *16.2.1 loss of profits or of contracts arising directly or indirectly;*
>
> *16.2.2 loss of business or of revenues arising directly or indirectly;*
>
> *16.2.3 any losses, damages, costs or expenses whatsoever to the extent that these are indirect or consequential or punitive;*

save that this clause 16.2 shall not apply in the event that either party terminates this Agreement other than in accordance with Clause 21.

There were numerous problems with Release 3 resulting in severe disruption to C's billing system. Bills to C's customers were inaccurate, delayed, sent in error or not sent at all. There was a surge in customer complaints and a large number of customers (770,000) terminated their contracts with C to source their gas and electricity from other suppliers.

C commenced proceedings against A seeking damages for breach of the warranty in clause 15.2.2. The outcome of the case is fact specific but what is of general commercial interest is the judge's approach to five specific items of loss claimed by C. Mr Justice Field was asked to decide as a preliminary issue whether these items of loss amounted to direct or indirect losses and, therefore, whether they were potentially recoverable or excluded by clause 16.2.

Decision

Mr Justice Field's judgment on these items of loss was as follows:

- Gas distribution charges (£18,700,000)

C purchased gas wholesale from distributors and was charged according to the volume supplied to its customers. As result of the problems with Release B, the distributors were provided with erroneous customer consumption data and C was over-charged in the sum of almost £19m.

Mr Justice Field held that this loss had arisen as a direct result of the errors in Release B and so was a direct loss falling within the first limb of the rule in *Hadley v Baxendale* (and so not excluded by 16.2.3). He also found that the claim was not one for revenue but for charges which would not have been paid but for the errors with Release B. Therefore, this item of loss was not excluded by 16.2.2 and was potentially recoverable by C.

- Compensation paid to customers (£8,000,000)

C paid £8m to customers affected by the billing difficulties by way of compensation to minimise the damage to its reputation. Mr Justice Field found that this was a direct loss within the first limb of the rule in *Hadley v Baxendale* (and so not excluded by 16.2.3). Recital A made it plain that the new billing system was to improve customer relations and A should assume responsibility for compensation paid to customers if the billing system failed to perform as it should. This item of loss did not fall within 16.2.1 or 16.2.2 either and so was potentially recoverable by C.

- Additional Borrowing Charges (£2,000,000)

As a result of the difficulties in billing customers, C's revenue was reduced and it was forced to incur £2m in additional borrowing charges to finance its business.

Mr Justice Field held that the billing system was at the heart of C's business and any problems with the billing system was bound to have an adverse impact on C's revenue with the very likely consequence that it would have to borrow. Accordingly, this loss was a direct loss within the first limb of the rule in *Hadley v Baxendale* (and so not excluded by 16.2.3). Neither was it excluded by 16.2.1 or 16.2.2 and was potentially recoverable by C.

- Cost of chasing debt (£387,287)

C incurred this sum in chasing debt from its customers which in fact was not due but which C thought was due as a result of the errors in Release B. Mr Justice Field found that this loss flowed naturally and in the ordinary course of

events from the breach of warranty and was a direct loss within the first limb of the rule in *Hadley v Baxendale* (and so not excluded by 16.2.3). Neither was it excluded by 16.2.1 or 16.2.2. It was potentially recoverable by C.

- Additional stationery and correspondence costs (£107,120)

C incurred stationery and correspondence costs in writing to customers to keep them informed of the billing problems and how the problems were being rectified.

Mr Justice Field held that, as the new billing system was to improve customer relations, A should assume responsibility for the costs of attempting to maintain good customer relations when the billing system did not perform as it should. These losses were direct losses within the first limb of the rule in rule in *Hadley v Baxendale* (and so not excluded by 16.2.3). Neither were they it excluded by 16.2.1 or 16.2.2 and were potentially recoverable by C.

Comment

Although Mr Justice Field's assessment of whether the five items of loss were direct or indirect losses was specific to the facts of this case, his judgment has wider commercial implications. It demonstrates that it is difficult to predict with certainty whether any particular item of loss following from a breach of contract will be categorised as direct or indirect. Anyone drafting exclusion clauses must consider what types of loss may flow from a breach of the contract and specifically provide for those losses to be excluded (if that is the parties' intention) rather than relying on them being excluded by a general exclusion of direct or consequential loss.

Further reading

Click here for a copy of the judgment

High Court strikes out entire exclusion clause although only one sub-clause unreasonable

In *Lobster Group Limited v Heidelberg Graphic Equipment Limited*, the High Court has held that an unreasonable sub-clause in an exclusion clause rendered the entire clause unreasonable and unenforceable.

Facts

Heidelberg (H) contracted to supply a £1.2m printing press to Lobster (L). The contract contained the following exclusion clauses:

Clause 10(c)

"This guarantee is confined to replacement or repair at [H's] option of the defective part and the repair of any damage to the equipment arising from the failure of the said part and any payment by way of damages whether for immediate or consequential loss is hereby expressly excluded."

Clause 13:

"*In any event, notwithstanding anything else contained in this contract, in no circumstances shall [H] be liable in contract, tort (including negligence or breach of statutory duty) or otherwise howsoever and whatever the cause*

thereof: (i) for any increased costs or expenses (ii) for any loss of profit, business contracts, revenues or anticipated savings; or (iii) for any special, direct or consequential damage of any nature whatsoever said to have occurred consequent upon the supply or the circumstances of the supply of the goods or services here contracted to be supplied by [H] or any sub-contractor to its customer."

The printing press was faulty and L brought proceedings against H for breach of contract and misrepresentation. H sought to rely on clauses 10(c) and 13 to exclude the losses which L claimed. L argued that the clauses were unreasonable and so void under UCTA 1977.

Decision

Mr Justice Ramsey held that it was not unreasonable for H to exclude any liability other than the obligation to remedy defects under clause 10(c). He considered, however, that the exclusion of "immediate loss" in clause 10(c) and of "increased costs or expenses" and direct damage in clause 13 to be unreasonable. If H failed to repair or replace the defective part of the printing press then it was unreasonable that L should not be able to recover damages for breach of contract to cover the "immediate loss" or "increased costs or expenses" or other direct damage suffered in paying others to remedy the defects.

Mr Justice Ramsey held that the exclusions of consequential loss in clauses 10(c) and 13 were not unreasonable. L was in a better position than H to know what losses it might suffer if the printing press was faulty and to insure against these losses. However, the effect of the unreasonable sub-clauses of clause 10(c) and 13 was to render the whole of each clause unreasonable and so void. The unreasonable parts were not severed from the whole.

Comment

Anyone drafting exclusion clauses in contracts needs to be aware of this case. It goes against previous authority that the courts will sever an unreasonable sub-clause of an exclusion clause leaving the remaining sub-clauses unaffected. If this case is followed as authority, there is a risk that an entire exclusion clause will be void and unenforceable if merely one sub-clause of it is found to be unreasonable.

In light of this judgment, those drafting exclusion clauses should avoid putting exclusion clauses which are likely to be found unreasonable in a contract in the first place. If a risky term which pushes the boundaries of reasonableness is included then ideally (although perhaps not very realistically) each separate exclusion or limitation should be included as a separate clause (ie. 1, 2, 3 etc) or alternatively, (and slightly more risky) as a sub-clause (4.1, 4.2, 4.3 etc). It should be made clear that each sub-clause stands alone by, for example, adding wording that the parties agree that each sub-clause is a separate term and severable.

It is to be hoped that this aspect of the judgment will be overturned either on appeal or in subsequent cases.

Further reading

Click here for a copy of the judgment

High Court interprets and applies the Commercial Agents Regulations

In the case of *Accentuate Limited v Asigra Inc*, Mr Justice Tugendhat in the High Court interpreted and applied Regulations 17 and 19 of the Commercial Agents (Council Directive) Regulations 1993 (the Regulations), concerning the payment of compensation to an agent on termination of the agency contract.

Background

The Regulations were introduced to implement in the UK EC Directive 86/653/EEC on the co-ordination of the laws of Member States relating to self-employed commercial agents. A commercial agent is defined as:

"*.. a self-employed intermediary who has continuing authority to negotiate the sale or purchase of goods on behalf of another person (the "principal") or to negotiate and conclude the sale or purchase of goods on behalf of and in the name of that principal*".

Regulation 17 entitles a commercial agent to an indemnity or compensation on termination of the agency agreement. Regulation 19 provides that the parties may not derogate from Regulation 17 to the detriment of the commercial agent. In *Igmar v Eaton Leonard Technologies*, the ECJ held that a choice of law clause could not be used to evade liabilities under the Regulations and that any clause that purported to derogate from the Regulations would be unenforceable.

S9 of the Arbitration Act 1996 (the Act) requires a court to stay proceedings in respect of a matter that the parties have agreed to refer to arbitration. S9(4) requires the court to grant a stay unless the arbitration agreement is "null and void, inoperative or incapable of being performed".

Facts

Asigra (a Canadian company) as licensor (L) and Accentuate (an English company) as distributor (D) entered into a Master Reseller Agreement (MRA) pursuant to which D was to distribute L's software and related hardware, being a DS-Key necessary for the software to function properly. Clause 18.3 provided that the governing law of the MRA was to be the laws of Ontario and the federal laws of Canada. Clause 18.5 provided that all disputes were to be settled by arbitration to be held in Toronto.

Disputes arose. D informed L that it intended to make a claim against L for compensation under the Regulations. L commenced arbitration proceedings. D participated in the arbitration but argued that its claim for compensation under the Regulations fell outside the scope of the arbitration as it was not subject to the arbitration agreement in clause 18.5 of the MRA. In its award, the Arbitral Tribunal denied D's request that its claim for compensation fell outside the scope of the arbitration agreement and determined that the Regulations did not apply as between D and L but that Ontario law applied instead.

D did not apply to the Canadian courts to challenge the award. Instead, it issued proceedings in the English courts claiming compensation under the Regulations. D obtained permission to serve proceedings on L out of the jurisdiction under CPR 6.20 (as it then was). L subsequently obtained an order setting aside this permission and staying the proceedings under S9 of the Act.

D appealed. It argued that the arbitration agreement in clause 18.5 of the MRA amounted to an evasion of the Regulations under the principles in *Igmar* and so was unenforceable. It followed that the proceedings should not be stayed under S9 of the Act and it should continue to have permission to serve out of the jurisdiction.

Decision

Mr Justice Tugendhat upheld D's permission to serve proceedings on L out of the jurisdiction and lifted the stay on the proceedings.

He first considered the question of whether D was a "commercial agent" for the purposes of the Regulations and concluded that it was arguable that he was. To reach this conclusion, he assessed the terms of the MRA and what

D was required to do under it. He found that D was required to find end users who would enter into a Software Licence Agreement with L. He found that this fell within the test developed in *Esso v Parks* of a commercial agent as someone "dealing with, managing or concluding the sale of the [principal's] goods to third party customers".

Mr Justice Tugendhat had to overcome the problem that to be a commercial agent within the Regulations, D must be negotiating/concluding the sale of goods. He found that software did not constitute goods but that the related hardware (the DS-Key) did. This hardware was provided to the end user once they had become a party to a Software Licence Agreement with L. As the sale of the software and provision of the hardware were bound together in this way, Mr Justice Tugendhat found that D was selling L's goods and was, therefore, arguably a commercial agent within the Regulations. L submitted that it sold hardware to D who sold it on to end users on its own behalf. D was contracting with customers on its own behalf and following *Sagal v Bunz* this meant that D was not a commercial agent. Mr Justice Tugendhat rejected L's submission finding that there was no evidence that D contracted in its own name with end users. Also, this did not sit alongside the fact that L entered into Software Licence Agreements with end users. The provision of hardware was merely a means of finalising that Agreement to ensure that the software functioned and could not be viewed as a separate transaction.

Having found that the Regulations applied to D, Mr Justice Tugendhat went on to consider the issue of payment of compensation. He held that he was bound by the ECJ's decision in *Igmar* to give effect to D's mandatory rights under EC law and Regulation 17 of the Regulations. The arbitration agreement in clause 18.5 derogated from D's right to compensation under Regulation 17 and, also following *Igmar*, was unenforceable in so far as it required the submission to arbitration of questions relating to the Regulations. The principles in *Igmar* applied to arbitration agreements that specified a place and law in the same way as they applied to simple choice of law clauses. As questions relating to the Regulations were not caught by the arbitration agreement and not governed by Ontario law, the only law they could be governed by was English law. D could bring proceedings in the English courts. The arbitration agreement was unenforceable and so, under S9(4) of the Act, the stay would be lifted. D's permission to serve out of the jurisdiction would stand.

Comment

In this case, mandatory provisions of EC law (implemented by Regulations) had the effect of making the arbitration agreement and choice of law clause in the MRA unenforceable. The judgment is a reminder to parties drafting agency agreements that any attempt to contract out of the indemnity/compensation provisions in the Regulations, even indirectly via a choice of law clause or similar, will be unenforceable.

Further reading

Click here for a copy of the judgment

Agency continued even where agent no longer negotiating sales

In *Claramoda Limited v Zoomphase Limited*, the High Court was asked to determine the effective date of termination of an agency contract for the purposes of assessing whether compensation was payable under the Commercial Agents (Council Directive) Regulations 1993 (the Regulations).

Background

The Regulations apply to 'commercial agents'. A commercial agent is defined as:

"*.. a self-employed intermediary who has continuing authority to negotiate the sale or purchase of goods on behalf of another person (the "principal"), or to negotiate and conclude the sale or purchase of goods on behalf of and in the name of the principal*."

Regulation 17(9) of the Regulations provides:

"*The commercial agent shall lose his entitlement to the indemnity or compensation for damage …….. if, within one year following termination of his agency contract, he has not notified his principal that he intends pursuing his entitlement*."

Facts

Zoomphase (Z) was a manufacturer of woman's couture clothing. Claramoda (C) was its exclusive agent in the UK. There was no written agency agreement.

The sale of clothing by C fell into two seasons; the Spring/Summer season and the Autumn/Winter season. Each year, the key sales for each of these seasons happened approximately six months in advance of the season itself; sales of Spring/Summer clothes during the preceding July to October and sales of Autumn/Winter clothes during the preceding January to March.

The key chronology was:

December 2005 – Z and C discuss termination of the agency on the telephone. Z tells C that it wants to take sales in-house but cannot do so until it has a showroom and staff. C took this conversation to mean that the last season in which it would be acting as agent for Z would be the Spring/Summer 2007 season (the key sales would made during July to October 2006).

November 2006 – Z telephones C to say that it does not yet have the premises or staff to take sales in-house and to ask whether C would give Z the option of continuing to act as its agent for the Autumn/Winter 2007 season. Z said that it would confirm the position during the following January.

Early January 2007 – C telephoned Z to find out if it was required to act as Z's agent for the Autumn/Winter 2007 season. Z confirmed that it would be taking the sales of that season in-house.

23 January 2007 – Z wrote to its customers and confirmed that it would be taking the sales in-house.

Between October 2006 and January 2007, C had been involved in ongoing commercial activity relating to its sales of the Spring/Summer 2007 clothes. Amongst other things, C dealt with order confirmations, discrepancies in orders, repeat orders and increases in the numbers ordered, requests for promotional material, amendments to orders and requests from customers to buy stock and had been involved in chasing customers for payment.

On 27 November 2007, C's solicitor wrote to Z in the following terms:

"*This letter is to give you formal written notice of our client's intention to bring a claim against you for compensation under Regulation 17 of the Commercial Agents (EC Directive) Regulations 1994, following termination of our client's commercial agency by you in or about January 2007*"

The question for the court was, when did the agency terminate? Z argued that the termination date was the end of October 2006 and that C's notification of its compensation claim was out of time. C argued that it was during January 2007 and that its notification was in time.

Decision

Mr Justice Simon in the High Court held that the agency terminated in mid January, just before Z sent the letter to its customers. He referred to the case of *Sagal v Bunz* and said that the contractual documentation would have been determinative on this issue, had there been any. In the absence of any documentation, the conduct of the parties would be key.

A commercial agent was someone who had continuing authority to negotiate the sale of goods. Following *Esso v Parkes*, it was clear that negotiation involved a general concept of 'dealing with, managing or conducting a sale'. From October 2006 to January 2007, C had continued to undertake various commercial activities. It had stopped negotiating sales in October 2006 but that did not mean that the agency agreement had terminated at that point. The ongoing commercial activities demonstrated that although C was not actually negotiating sales it had continuing authority to do so. This authority was terminated in January 2007 when Z confirmed that it would be taking sales in-house. Accordingly, C had given notice of its intention to make a claim for compensation within 12 months of termination.

Comment

This case is pro-agent. It is authority for the principle that an agent will be a commercial agent for the purposes of the Regulations even where the agent is not actually negotiating sales. If the agent continues to undertake some ongoing commercial activities then the court will find that the agency agreement terminates when those activities come to an end and not when the agent stopped negotiating sales.

The case also highlights the need for contractual documentation and termination dates to be agreed clearly and documented.

Further reading

Click here for a copy of the judgment

INTELLECTUAL PROPERTY

Back to Top

High Court applies *L'Oreal v Bellure* decision in trade mark infringement claim

In *Daimler AG v Sany Group Co Limited*, the High Court has, for the first time in a reported case, applied the Court of Appeal's decision in *Whirlpool Corporation v Kenwood* and the ECJ's decision in *L'Oreal v Bellure* in assessing a claim for trade mark infringement under s10(3) Trade Marks Act 1994.

Background

S10(3) Trade Marks Act 1994 provides:

"*A person infringes a registered trade mark if he uses in the course of trade [, in relation to goods or services,] a sign which*

(a) is identical with or similar to the trade mark, . . .

(b) . . .

where the trade mark has a reputation in the United Kingdom and the use of the sign, being without due cause, takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark."

Facts

Daimler AG (D) was the proprietor of a number of UK and Community trade marks for the well known Mercedes-Benz 3-pointed star in a circle logo. The marks were primarily registered for cars, trucks, vans and buses.

Sany (S) began using a 3-pointed star in a circle on construction equipment and machinery. This equipment was often installed on truck chassis's before use.

D sued S for trade mark infringement under s10(3).

Decision

Applying the decisions in *Whirlpool Corporation v Kenwood* and *L'Oreal v Bellure*, Ms Susan Prevezer, sitting as a Deputy High Court Judge, held that there was no trade mark infringement. She held that "unfair advantage" refers not to any detriment to the trade mark but to the advantage obtained by the user of the similar sign. This was where the sign was 'riding on the coat tails' of the mark by benefitting from the mark's power of attraction and the reputation and prestige of the mark and the user of the sign was exploiting the trade mark proprietor's marketing efforts without making similar efforts of his own. The fact of unfair advantage should be assessed globally, taking into account:

- The degree of similarity between the mark and the sign – the greater the similarity the more likely it was that the use of the sign would cause the mark to be called to mind (a 'link' would be established);
- The nature of the goods and services for which the mark and the sign respectively were being used;

- The degree of strength of the mark's reputation;
- The degree of the mark's distinctive character – the stronger the mark's distinctive character the more likely it was that use of the sign would cause the mark to be called to mind (a 'link' would be established); and
- The existence of a likelihood of confusion on the part of the public.

There was no trade mark infringement by Sany. There was no likelihood that a 'link' would be made by the average consumer between D's mark and S's sign (S's sign would not cause D's mark to be called to mind). Although D's mark was "hugely famous" and highly distinctive and although the goods for which D's mark and S's mark were being used were sufficiently similar, the Deputy Judge found that the mark and the sign were not similar. The only similarity was an outer circle with a 3-pointed image within but there the similarity ended.

Even if she had been satisfied that the average consumer would have made the link between D's mark and S's sign, the Deputy Judge indicated that she would not have found that S was taking unfair advantage of D's mark. Any calling to mind of D's mark would not have had the effect of inciting consumer interest in S's goods by adding allure and prestige to S's goods thereby giving S an unfair advantage. The evidence had shown that S had spent a considerable amount of money promoting its goods in the UK and in light of this the Deputy Judge found that S had not had a 'leg up' by virtue of the use of its sign.

Comment

This case has broader commercial interest than merely the decision reached as it demonstrates how the English courts are likely to interpret the concept of 'unfair advantage' and, in particular, the assessment of whether the necessary link between the mark and the sign has been established. It suggests that the courts will restrict the scope of trade mark protection for marks with a reputation. In this case, the Deputy Judge acknowledged that D's mark was hugely famous and highly distinctive and that the goods and services being used by D and S were essentially the same. If, in those circumstances, the Judge was not prepared to find the existence of a link (the calling to mind of D's mark), then it is not clear when a trade mark proprietor would ever succeed in showing this. It may be that the Judge was heavily influenced by the witness evidence adduced in this case which indicated that S's sign would not cause D's mark to be called to mind and that S had no intention of taking unfair advantage of D's mark.

The decision will not be welcomed by brand owners and it remains to be seen whether it will be followed as an authority in subsequent cases.

Further reading

The judgment is only available via subscription services.

"No proceedings will be commenced" is an unjustified threat of IP proceedings

In *Grimme Landmaschinefabrik GmbH & Co. KG v Derek Scott (t/a Scotts Potato Machinery)*, the High Court held that a letter which expressly stated that no patent or design right infringement proceedings would be brought could constitute an unjustified threat of infringement proceedings.

Background

Section 70(1) Patents Act 1997 provides:

> "*Where a person (whether or not the proprietor of, or entitled to any right in, a patent) by circulars, advertisements or otherwise threatens another person with proceedings for any infringement of a patent, a person aggrieved by the threats (whether or not he is the person to whom the threats are made) may…… bring proceedings in the court against the person making the threats, claiming any relief mentioned in subsection (3) below.*"

Subsection 3 provides:

> "*The said relief is—*
>
> *(a) a declaration…. to the effect that the threats are unjustifiable;*
>
> *(b) an injunction .... against the continuance of the threats; and*
>
> *(c) damages in respect of any loss which the claimant has sustained by the threats.*"

Section 253 Copyright Designs and Patents Act 1988 provides:

> "*Where a person threatens another person with proceedings for infringement of design right, a person aggrieved by the threats may bring an action against him claiming—*
>
> *(a) a declaration to the effect that the threats are unjustifiable;*
>
> *(b) an injunction against the continuance of the threats;*
>
> *(c) damages in respect of any loss which he has sustained by the threats.*"

Facts

Grimme (G) commenced proceedings against Scott (S) for patent and design right infringement in relation to rollers in potato separators. S counterclaimed for unjustified threats of infringement proceedings. S alleged that the threats were contained in letters sent by G's solicitors to customers of S. The letters said:

> "*We represent [Grimme] in ongoing proceedings before the English High Court against Mr Derek Scott, relating to the "Evolution" potato separator sold by Mr Scott.*
>
> *It has come to our attention that you are selling Evolution separators in conjunction with and/or supplied by Mr Scott. We would expect that Mr Scott has made you aware of both the existence of proceedings and the trial date this Autumn, but we wish to clarify the status of the case.*
>
> *Our client commenced proceedings against Mr Scott on 7 March 2009 seeking an injunction, damages and legal costs from Mr Scott for infringement of our client's patent (No EP (UK) 730,399) and unregistered design rights in separator roller design. The case (reference HC 08 C0063) comes to trial in the High Court in October 2009.*
>
> *Our client is claiming damages in respect of losses already sustained as a result of sales by Mr Scott of the Evolution separator and a permanent injunction to prevent Mr Scott from selling any more Evolution*

separators in the future. Our client is also seeking reimbursement of all its legal costs and expenses in the proceedings.

We understand that you are acting as a reseller of Mr Scott's Evolution separator and/or manufacturing your own version of Mr Scott's Evolution Separator or equivalent product which infringes our client's patent and unregistered design rights. Please note that our client does not intend to commence proceedings against you as its action is against Mr Scott, but of course our client reserves all its rights in this matter.

We will contact you again after judgment has been handed down."

G argued that the letter could not constitute a threat as it specifically said that G did not intend to commence proceedings against the customers.

Decision

Mr Justice Floyd in the High Court held that the letter did constitute a veiled threat of infringement proceedings. It was established law that a threat could be implied as opposed to express. What needed to be considered was the effect that the letter would have on an ordinary recipient. In this case, the ordinary recipient would read the last few sentences of the letter as indicating that G did not at present intend to commence proceedings against the recipient, but it would be likely to do so in the future if it was successful in its action against S. The recipient would be likely to conclude that the rights which were being expressly reserved were the rights to bring those proceedings, and that they would be likely to be exercised when the solicitors contacted them again after judgment.

Accordingly S's counterclaim for unjustified threats of infringement proceedings succeeded.

Comment

This case illustrates that the courts will take a pragmatic approach when assessing whether a communication is a threat of infringement proceedings. It is a reminder that letters before action in IP infringement matters (save for passing off and copyright infringement) should be drafted with care and cleared by a legal adviser before being sent.

Further reading

Click here for a copy of the judgment

Reference to ECJ in seizure of counterfeit goods case

In the July/August edition of this bulletin we reported on a decision of Mr Justice Kitchin in the case of *Nokia Corporation v Her Majesty's Commissioners of Revenue & Customs* (HMRC). For a copy of the report, click here.

The case concerned fake Nokia telephone handsets, bearing the NOKIA trade mark, arriving at Heathrow Airport in transit between Hong Kong and Columbia. Nokia applied for judicial review of HMRC's decision not to seize the goods. HMRC had argued that the handsets were not 'counterfeits' within the meaning of the Counterfeit Goods Regulation because they had never been put on the market in the UK. The judge upheld HMRC's actions.

Nokia appealed. In light of a conflicting decision by a Belgian court, the Court of Appeal has made a reference to the ECJ for a preliminary ruling on these issues. The exact questions referred have yet to be published but they

will essentially address whether non-EU goods in transit from one non-EU Member State to another are capable of constituting 'counterfeit goods' within the meaning of the Counterfeit Goods Regulation if there is no evidence that they will be released into free circulation in the EU or be illicitly diverted into the EU market.

Click here for a copy of the High Court's decision

Click here for a copy of the Counterfeit Goods Regulation

Questions to ECJ in Google Adwords cases published

In *L'Oreal v eBay* and *Interflora v Marks & Spencer*, Mr Justice Arnold decided to refer a number of questions on the Google Adwords issue to the ECJ for a preliminary ruling ie. would the selection/use of a third party trade mark as a keyword amount to trade mark infringement?

The questions referred in each case have now been published on the ECJ's website.

Click here for the questions in *L'Oreal v eBay*

Click here for the questions in *Interflora v Marks & Spencer*

We should have answers to some of these questions when the ECJ gives its ruling in the *Google France v Louis Vuitton* case. The Advocate General's opinion in this case was that the selection/use of a third party trade mark as a keyword will not amount to trade mark infringement by either Google or the advertiser. The ECJ's ruling is expected early next year.

E-COMMERCE

Back to Top

Evidence of substantial publication needed in online defamation claim

In *Lonzim PLC v Andrew Sprague*, the High Court has dismissed a online defamation claim on the basis that there was no substantial publication of the words complained of.

Facts

Lonzim (L) was a financial services company. The case concerned comments allegedly made by Sprague (S) about L's investment policies. S allegedly made the comments to a journalist with the South African weekly magazine 'Financial Mail'. The journalist produced an article extensively quoting S which was published in the magazine on 1 May 2009. The magazine was also put online and it was S's comments in this online edition that were the focus of these proceedings.

The evidence was that the online edition of the article had been visited 65 times. It was not apparent whether that was 65 different people or the same people accessing the article more than once. Nor was it possible to say in which jurisdiction the visitors were located. The evidence was that, on average, approximately 6.79% of the visits to the Financial Mail website were made by users of the Internet in the UK. 6.79% of 65 visits meant that 4 visits may have been made by one or more visitors based in the UK.

Decision

Mr Justice Tugendhat in the High Court applied the principle in *Al Amoudi v Brisard*, that there is no presumption in law that placing material on the Internet automatically leads to a substantial publication of it. He found that whether or not any person in the UK had read the words complained of in the Financial Mail was a matter of speculation and no more. L had not, therefore, successfully shown that there had been substantial publication of the article in the UK. Taken at its highest, there was evidence at best of minimal publication of the words complained of and certainly not evidence of any substantial tort committed within the jurisdiction.

This meant that there was no prospect of L being awarded damages for defamation greater than a very modest sum, and no prospect of an injunction being granted. The costs and court resources that would be required to achieve this would be disproportionate. Accordingly, the court ordered that L's claim be struck out.

Comment

This is the latest in a line of recent cases concerning defamation online and further reinforces the established principle that a claimant will not succeed in a defamation claim merely by showing that the material is available on the Internet. The Claimant needs to adduce evidence that the material has actually been accessed and downloaded by a substantial number of people in the UK.

Further reading

Click here for a copy of the judgment

DATA PROTECTION

Back to Top

Government consults on level of fines for DPA breaches

The Government has launched a consultation on the maximum fine that the Information Commissioner (ICO) will be able to impose for serious breaches of the Data Protection Act 1998 (DPA).

Background

S144 Criminal Justice and Immigration Act (CJIA) inserts a new S55A into the DPA. S55A introduces a new power for the ICO to impose a 'monetary penalty' on data controllers. The ICO will be able to impose a monetary penalty where:

(a) there has been a serious contravention of section 4(4) of the DPA by the data controller,

(b) the contravention was of a kind likely to cause substantial damage or substantial distress, and either

(c) the contravention was deliberate or the data controller knew or ought to have known that there was a risk that the contravention would occur, and that such a contravention would be of a kind likely to cause substantial damage or substantial distress, but failed to take reasonable steps to prevent the contravention.

Section 4(4) DPA states that "it shall be the duty of the data controller to comply with the data protection principles in relation to all personal data in respect of which he is the data controller". The data protection principles are set out in Schedule 1 DPA.

S144 CJIA provides that the monetary penalty imposed must "not exceed the prescribed amount".

Facts

The Government has launched a consultation on what the maximum "prescribed amount" should be. It has proposed £500,000 and has asked just one question in the consultation, which is "*Do you consider that a penalty of up to £500,000 provides the ICO with a proportionate sanction for serious contraventions of the data protection principles?*

The Government considered allowing the ICO to impose a monetary penalty of up to 10% of the data controller's turnover. It dismissed this option as creating too great an administrative burden for the ICO. However, the Government has said that it is desirable that the maximum amount of the penalty should not be higher than the equivalent of 10% of the highest annual turnover of a small company.

The ICO will exercise its discretion to assess the appropriate level of the fine imposed in each case. It has published a detailed draft guidance note about how it will exercise this discretion. The guidance covers what the ICO will regard as a 'serious' contravention of S4(4), what are the 'reasonable steps' that a data controller should have taken to prevent it from happening and how the ICO will determine the amount of the financial penalty.

The consultation closes on 21 December 2009.

S144 CJIA is not yet in force but is expected to come into force in April 2010 at the same time as the new custodial sentences for misuse of personal data are introduced.

Further reading

Click here for a copy of the Ministry of Justice's consultation paper

Click here for a copy of the ICO's draft guidance note

MEDIA

Back to Top

CAP code to cover website content

The remit of the CAP code may be extended to cover website content.

The CAP code is the rule book for non-broadcast advertisements, created by the Committee of Advertising Practice. Complaints that adverts breach a provision of the Code are made to the Advertising Standards Authority (ASA) which adjudicates on all complaints that fall within the Code's remit. Where a breach is found, the ASA usually merely orders the advertiser not to repeat an advert although adverse publicity can result from the publication of the adjudication.

Currently, the Code applies to

"*advertisements in non-broadcast electronic media, including online advertisements in paid-for space (eg banner and pop-up advertisements)*".

but not to

"*website content, except sales promotions and advertisements in paid-for space*".

This means that a promotion on an advertiser's own website will be outside the Code (because it is website content and not in paid-for space) although the same promotion in a banner advert on a third party site would be within the Code (because this is paid-for space).

There are proposals to extend the remit of the CAP code to cover website content. This means that the ASA will be able to adjudicate on complaints about adverts appearing on an advertiser's own website. There are also plans to introduce new sanctions where website content falls foul of the Code. These changes are likely to be implemented during summer 2010.

Click here for a copy of the current CAP code

For further information on any of the items covered in this bulletin please speak to your usual Hammonds contact or Gillian Dennis, Professional Support Lawyer on +44 (0) 161 830 5391 or gillian.dennis@hammonds.com