Hammonds

COMMERCIAL AND INTELLECTUAL PROPERTY LAW

BULLETIN

July 2010

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Commercial Intellectual Property Data Protection Media/Advertising

This month's bulletin includes a review of the ECJ's second ruling on the legality of trade marks as search engine keywords and a look at the European Commission's plans to reform contract law across all EU Member States.

The Bulletin will return after the summer break.

COMMERCIAL

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FSA backs OFT on unfairness of 'read and understood' contract declarations

The FSA has backed earlier guidance issued by the OFT and confirmed that, in its view, 'read and understood' terms in consumer contracts are unfair. The FSA said that including a contractual term or a tick box on a website asking a consumer to confirm that they had read and understood the contract would be unfair and in breach of the Unfair Terms in Consumer Contracts Regulations. Companies should not reject customer complaints because they had ticked a box saying that they had read and understood the contract. The FSA said:

> "*A declaration requiring consumers to agree that they have read and understood a contract is, in our view, unfair. This is because the statement may not be true and may not reflect what has actually happened. Consumers may not have either read or understood the contract and so are not in a position to declare that they have in fact done so. In this instance, the declaration is effectively meaningless and does not reflect the circumstances in which the particular consumer signs their contract.*
>
> *The law requires consumers to be given an opportunity to examine all the terms in a contract.*
>
> *A declaration of this nature could be used by a firm to claim that it gave customers an opportunity to read a contract when it did not actually do so. The firm could argue that because a consumer has signed to say that they have read and understood a contract, this means the firm has fulfilled its obligation to allow the consumer to examine all the terms. This may not in fact be true. Therefore the use of a declaration in this way is unfair.*
>
> *It is preferable for 'have read and understood declarations' instead to give a clear warning to consumers that they should read and understand terms before signing them and that consumers should ask questions if they do not understand any terms*"

The FSA thought that it was fair to ask consumers to make declarations relating to matters which were within their own knowledge, such as personal information including age, gender and address.

The OFT has already issued guidance which makes it clear that asking consumers to declare that they have read and understood an agreement is unfair.

> "*Declarations that the consumer has read and/or understood the agreement give rise to special concerns. The Regulations implement an EU Directive saying that terms must be clear and intelligible and that consumers must have a proper opportunity to read all of them (see Part IV). Including a declaration of this kind effectively requires consumers to say these conditions have been met, whether they have or not. This tends to defeat the purpose of the Directive, and as such is open to serious objection.*
>
> *In practice consumers often do not read, and rarely understand fully, any but the shortest and simplest contracts. It might be better if they tried to do so, but that does not justify requiring them to say they have done so whether they have or not. The purpose of declarations of this kind is clearly to bind consumers to wording regardless of whether they have any real awareness of it. Such statements are thus open to the same objections as provisions binding consumers to terms they have not seen at all.*

Much more likely to be acceptable is a clear and prominent warning that the consumer should read and understand the terms before signing them."

Click here to read the FSA's statement

Click here to read the OFT's guidance

Equality Act 2010 – impact on suppliers of goods and services

The Equality Act 2010 is due to come into force in October 2010. The Act will impact on the suppliers of goods and services.

The Equality Act 2010 received Royal Assent on 8 April 2010 as part of the 'wash-up' of Parliamentary business prior to the General Election. Most of the Act has yet to be brought into force. The expected commencement date for the majority of the provisions is October of this year.

The Act has two main purposes – to harmonise discrimination law and to strengthen the law to support progress on equality. The Act brings together (and repeals) most of the existing UK discrimination legislation, including the Equal Pay Act 1970, the Sex Discrimination Act 1975, the Race Relations Act 1976 and the Disability Discrimination Act 1995. It does not change the law greatly – it restates this old legislation and makes the level of protection from discrimination uniform across specific 'protected characteristics', namely disability, gender reassignment, pregnancy and maternity, race, religion or belief, age (unless under 18), sex and sexual orientation.

The Act makes it unlawful for a supplier of goods or services in the public, private or voluntary sectors to directly or indirectly discriminate against, harass or victimise someone because they have a protected characteristic. There are specified exceptions to this general rule. For example, insurers will be able to offer different terms to men and woman provided this is based on up-to-date actuarial and statistical data. The Act also provides that any contractual term which discriminates against someone or which would otherwise lead to conduct prohibited by the Act will be unenforceable.

The Act requires suppliers to make reasonable adjustments where a disabled person would otherwise be placed at a substantial disadvantage. An example given in the explanatory notes is where a restaurant knows that a number of its customers have sight impairments and decides to produce a large print menu. That would be a reasonable adjustment.

As under the old law, websites must also be made accessible to disabled users.

Suppliers should be aware of the requirements of the Act and take any necessary steps to ensure that they are fully compliant.

Click here for the Act

Click here for the explanatory notes

BSkyB and EDS agree damages

BSkyB and EDS have reached agreement over the damages to be paid by EDS. EDS will pay a total of £318 million to Sky. The settlement marks the end of one of most expensive and longest running IT disputes.

Background

EDS contracted to build a customer relationship management (CRM) system for Sky at a cost of £48 million. EDS missed the initial and renegotiated delivery dates. Sky took over and completed the build itself. This resulted in implementation being delayed by 5 years and Sky spending an additional £200 million. Sky alleged breach of contract and that EDS had made a number of false representations which had induced Sky to select EDS for the project and keep EDS in place as supplier despite its failures. The misrepresentations concerned such things as the resources that EDS had available for the project, the total cost of the system and the date by which the system could be delivered. Sky claimed that EDS made these misrepresentations throughout the sales process including in the initial response to Sky's invitation to tender and subsequently in emails, presentations and meetings.

In January, in an unprecedented 468 page ruling, Mr Justice Ramsay found that EDS had made a fraudulent misrepresentation and was also liable for negligent misrepresentation and breach of contract. He held that EDS had fraudulently misrepresented that it could meet the delivery dates. By giving these dates to Sky, EDS had represented that they were based on a proper assessment of the time that it would take to build the system. In fact, EDS had never carried out such an assessment and so it had no grounds for believing that it could ever meet these dates. The misrepresentation had been made by one of EDS' managing directors, Joe Galloway, who in the judge's opinion was motivated by a desire to win the contract and career advancement. In pursuit of these objectives, he was willing to "tell Sky whatever they wanted to hear".

EDS' liability

The finding of fraudulent misrepresentation had a direct impact on the extent of EDS' liability to Sky. It is not possible to exclude or limit liability for fraudulent misrepresentation. This meant that although EDS had capped its liability at £30 million in its contract with Sky, this cap did not apply to the fraudulent misrepresentation, leaving EDS exposed to unlimited liability. Sky's claim was for £700 million.

Shortly after the judgment, EDS was ordered to make an interim payment of £270 million to BSkyB pending a final ruling on damages. Subsequently, the parties have agreed that EDS will pay a total of £318 million to BSkyB (this includes the £270 million interim payment). While this is well below the £700 million BSkyB claimed, EDS had sought to cap its liability in the contract to £30 million. This case is unusual and does not lower the bar for claims for fraudulent misrepresentation but it is a reminder to suppliers to be alive to the sales processes being used by their employees.

European Commission consults on reforming contract law across Member States

The European Commission has started a consultation on how contract law should be changed to encourage cross-border trading within the EU.

The Commission is concerned that businesses choose not to trade cross-border because of the difficulties of dealing with unfamiliar (and often inaccessible from a language point of view) contract laws. This is particularly the case where the contract is with a consumer who will automatically gain some protection from his/her own national laws. The Commission wants to stimulate cross-border trade and considers that this will help progress on economic recovery.

The consultation has been launched by means of a Green Paper which sets out the ways in which contract law could be changed. These include the creation of non–binding model contracts which could be used for cross-border trade, recommendations for how Member States should change their national contract laws to promote consistency from Member State to Member State, the creation of a system of European contract law which would sit alongside national laws in each Member State and which the parties could opt to govern their cross-border contracts and, most significantly, the creation of a European civil contract code which would entirely replace the contract law regimes in each Member State.

The Commission is seeking views from all interested parties on which option is preferable. The consultation closes in January 2011 and the Commission hopes to make progress on implementing the reform by 2012.

Click here for the Commission's Green Paper

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Further ECJ ruling on use of trade marks as keywords

The European Court of Justice has given another ruling on the question of whether use of another's trade mark as an internet search engine keyword amounts to trade mark infringement. Whilst this ruling follows the ECJ's recent decision in the *Google France* case, it also usefully expands on one or two related questions.

Background

Article 5 of the Trade Marks Directive allows a trade mark proprietor to prevent a third party from using a sign identical to its trade mark for identical goods, or similar to its trade mark for identical or similar goods where there exists a likelihood of confusion.

Article 6 of the Directive provides that there will be no trade mark infringement where a third party uses the trade mark to, amongst other things, indicate such things as the kind, quality, quantity, intended purpose, geographical origin, the time of production of goods or of rendering the service or other characteristics of goods or services or where it is necessary to indicate the intended purpose of a product or service in particular as accessories or spare parts. For this defence to be available, the use of the trade mark must be in accordance with honest practices in industrial or commercial matters.

Article 7 of the Directive concerns the exhaustion of the trade mark proprietor's rights. This means that a trade mark owner cannot rely on its trade mark as a means of preventing a third party from selling on goods which have already been put on the market in the EEA by the trade mark proprietor or with the proprietor's consent (unless the trade mark proprietor can point to a legitimate reason for this).

Facts

The reference to the ECJ was made by the Dutch courts in the case of *Portakabin v Primakabin*. Portakabin manufactured and supplied mobile buildings and was the proprietor of the registered trade mark 'PORTAKABIN'. Primakabin sold and leased new and second hand mobile buildings. In particular, it sold second hand Portakabin buildings.

Primakabin reserved PORTAKABIN and the misspellings PORTACABIN, PORTOKABIN and PORTOCABIN as internet search engine keywords. Portakabin brought proceedings for trade mark infringement and the Dutch appeal court referred various questions on the law in this area to the ECJ.

Decision

The ECJ confirmed its earlier ruling in *Google France* that a trade mark proprietor may only prevent its trade mark being used as a search engine keyword by a third party in relation to identical goods where the advert displayed in response to the keyword incorrectly suggested a link between the trade mark proprietor and the advertiser or was ambiguous as to whether such a link existed.

However, the ECJ went further in that it considered the position in relation to three keywords which were misspellings of Portakabin, namely PORTACABIN, PORTOKABIN and PORTOCABIN. It said that these keywords were similar to Portakabin's trade mark (rather than identical to it). A trade mark proprietor could only stop a third party from using a keyword which was **similar** to its trade mark in relation to identical goods where there existed a likelihood of confusion amongst internet users. That required the advert to suggest that a link existed between the trade mark proprietor and the advertiser or be ambiguous as to whether such a link existed (in effect the same test as where a keyword identical to a registered trade mark is used in relation to identical goods).

The ECJ went on to say that the Article 6 defence would rarely be available to an advertiser. That was because this defence would only be available where the use of the trade mark as a keyword was in accordance with honest practices in industrial or commercial matters. Where use of a keyword had been found to amount to trade mark infringement, this would be because the advert suggested a link between the trade mark proprietor and the advertiser. Only in this situation would the advertiser need to try and fall back on the Article 6 defence but this would not be available because use of the trade mark as a keyword would not be in accordance with honest practices in industrial or commercial matters where the advert suggested a link between the trade mark proprietor and the advertiser. Rather confusingly, the ECJ went on to say that there may be circumstances in which the Article 6 defence was nevertheless applicable (it did not elaborate on this) and it was for the national court to decide this in each case.

In relation to Article 7, the ECJ confirmed that a trade mark proprietor cannot prevent a third party from using its trade mark as a keyword as a means of advertising its resale of genuine trade marked goods previously put on the market in the EEA by the trade mark proprietor or with its consent. This was unless the trade mark proprietor had legitimate reasons for opposing the further sale of the goods. The ECJ confirmed that one such legitimate reason would be where the advert suggested a link between the trade mark proprietor and the advertiser or was ambiguous about this. Another would be where the advertiser had removed the trade mark from the proprietor's second hand goods and substituted its own mark instead. However, neither the fact that the advertiser used the words 'second hand' or similar in its advert nor the fact that use of the keyword enabled the advertiser to also advertise goods for sale other than the trade mark proprietor's second hand goods would amount to legitimate reasons entitling the trade mark proprietor to prohibit the use of its trade mark as a keyword. This was unless the trade mark was seriously damaged as a result.

Further reading

Click here to read the judgment

ECJ interpretation of trade mark exhaustion rules

In *Coty Prestige Lancaster Group GmbH v Simex Trading AG,* the European Court of Justice (ECJ) has confirmed that a trade mark proprietor's rights will not be exhausted in respect of 'tester' products where the products are marked as not for resale and the trade mark proprietor imposes contractual restrictions on the resale of the testers on its authorised distributors.

Background

Article 5 of the Trade Marks Directive (89/104, as amended) gives the proprietor of a trade mark exclusive rights to prevent third parties from (amongst other things) importing, putting goods on the market and selling goods under the trade mark. However, the trade mark proprietor loses these rights (the rights are 'exhausted') where the goods have been put on the market in the EEA by the proprietor or with his consent. In those circumstances, the proprietor is unable to prevent or control onward sales of the goods.

Article 7(1) of the Directive specifically provides:

"*The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in [the EEA] by the proprietor or with his consent*".

The Community Trade Marks Directive (40/94) contains identical provisions.

Facts

Coty Prestige Lancaster Group (Coty) manufactured and sold perfume under a number of well known Community and international trade marks, including JOOP!, DAVIDOFF, CALVIN KLEIN and LANCASTER. Coty marketed its perfumes throughout the world through a selective distribution system, its distributors generally being referred to as 'authorised specialist dealers'. The contract between Coty and its authorised specialist dealers provided:

"*Coty may make available to the authorised specialist dealer decoration and other advertising material free of charge. That material remains, in so far as it is not intended to be passed on to consumers, the property of Coty and must be returned on its request.*

The advertising material made available to the authorised specialist dealer by Coty may be used only for the specified advertising purposes. Any commercial use on the part of the authorised specialist dealer in particular the sale of samples, testers or miniatures is prohibited."

Coty supplied perfume testers to its authorised specialist dealers located both within and outside the EEA. The packaging of the testers was different from that of the original goods, in particular the words 'Demonstration' and 'Not for Sale' appeared on the box.

Simex Trading purchased some DAVIDOFF perfume testers from one of Coty's authorised specialist dealers in Singapore and began selling them in Germany. Coty sought an injunction prohibiting Simex from selling these testers. Coty relied on its trade mark rights in DAVIDOFF. Simex claimed that Coty's trade mark rights had been exhausted. Coty argued that this could not be the case as the goods had never been placed on the market in the EEA either by itself or by a third party with its consent.

Various questions on the interpretation of the exhaustion provisions in the Trade Marks and Community Trade Marks Directive were referred to the ECJ.

Decision

The ECJ held that Coty's trade mark rights were not exhausted. It held that exhaustion could only occur where the goods had been put on the market in the EEA by the trade mark proprietor itself or by a third party with the proprietor's consent, which could be express or implied. In this case, Coty had not given express consent to the sale of the testers in Germany by Simex. Could Coty's consent be implied? The ECJ held not. It said that where, as here, testers were made available, without transfer of ownership and with a prohibition on sale, to third parties such as authorised specialist dealers who were contractually bound to the trade mark proprietor for the purpose of allowing their customers to test the contents, where the trade mark proprietor may at any time recall those goods and where the presentation of the goods was clearly distinguishable from normal bottles of perfume, the fact that the testers bear the words 'Demonstration' and 'Not for Sale' meant that the trade mark proprietor could not have impliedly consented to their sale. It did not matter that Coty had supplied identical testers to authorised specialist dealers within the EEA.

Comment

This case does not establish new law but is interesting for its interpretation of the exhaustion provisions in the context of samples or testers provided by trade mark proprietors to their distributors. It seems that just the fact that a tester is marked as such may not be enough to show that the trade mark proprietor has not impliedly consented to the sale of the products for the purpose of exhausting the proprietor's trade mark rights. The proprietor may also need to show the existence of contractual restrictions on their distributors similar to those in this case and that the testers are distinguishable from the products for sale in terms of get up.

Further reading

Click here to read the judgment

DATA PROTECTION

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Government consults on the UK's data protection regime

The Government has issued a wide ranging consultation on all aspects of the Data Protection Directive and the Data Protection Act 1998.

The European Commission recently announced that it intends to amend the Data Protection Directive to take account of changes in the European landscape, advances in technology and globalisation. It plans to make substantial changes to the existing regime to introduce a "new comprehensive legal framework for data protection".

In light of this development, the UK government wants to hear the views of all interested parties on how well the existing data protection regime under the Directive and the Data Protection Act in the UK is working. It intends to use these responses as evidence in the negotiations with other Member States on the changes needed to the Directive, which are likely to begin in early 2011.

The consultation is broad ranging. It asks for views on how well all aspects of the current data protection regime are working and whether they provide sufficient protections for privacy, from the adequacy of the current definition of sensitive personal data to how data subject access requests should be handled and from whether data subjects should be notified of data breaches through to how well the model form contracts for governing transfers of data to non-EEA countries are working. In all it asks for views on 39 questions.

Click here to view a copy of the consultation document.

The consultation closes on 6 October 2010.

Commission requests UK to strengthen powers of the Information Commissioner

The European Commission has sent a reasoned opinion to the UK government requesting that the Data Protection Act 1998 (DPA) be amended to strengthen the powers of the Information Commissioner and the courts.

The Commission is critical of the UK's implementation of the EU Data Protection Directive (95/46/EC) in the DPA. It says that the following four things are included in the Directive but have not been implemented in UK law:

- The Information Commissioner cannot monitor whether the data protection regime in countries outside the EEA is adequate before data controllers transfer personal data there (but should be able to);

- The Information Commissioner does not have the authority to carry out random checks on those processing personal data or the right to enforce penalties following such checks (but should be able to);

- The UK courts can refuse the right to have personal data rectified or erased (but should not be able to do so);

- The right to compensation for moral damage when personal data is used inappropriately is also restricted (but should not be).

The issuing of a reasoned opinion is the second stage in the process used by the European Commission to ensure that Member States properly implement EU law into national law. The Information Commissioner has released a statement indicating that it will discuss the Commission's concerns with the Ministry of Justice and that it will have input into the UK government's response.

The UK now has two months until 24 August in which to inform the Commission of the measures taken to ensure full compliance with the Directive. Failing this, the Commission will move to the third and final stage of its enforcement process which involves referring the UK to the European Court of Justice. If the Court was to find against the UK on these issues, the UK could face substantial fines.

Click here to read the Commission's statement

Click here to read the Information Commissioner's statement

MEDIA/ADVERTISING

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Article 29 Working Party opinion on required consent to cookies

The Article 29 Working Party (the independent EU advisory body on data protection and privacy) has issued an opinion on the use of cookies in online behavioural advertising.

Currently, the use of cookies is governed by Article 5(3) of the E-Privacy Directive. This provides that cookies may only be used where the internet user has been given clear and comprehensive information about why the cookie is being used and given an opportunity to opt out. Article 5(3) has been amended by the Citizens' Rights Directive which provides that cookies may only be used where the user concerned has given his or her consent (opt-in) having been provided with clear and comprehensive information about the cookie use (unless the cookie is 'strictly necessary' for the provision of a service 'explicitly requested' by a user). A new Recital 66 provides that a user's consent to cookies "may be expressed by using the appropriate settings of a browser or other application". These changes are due to come into force in May 2011.

The Article 29 Working Party has issued an opinion on the meaning of the amended Article 5(3) in the context of online behavioural advertising. It has indicated that a high standard will be applied. Opt-in consent to cookie use will mean just that. Advertisers will be required to give highly visible information to users as a pre-condition for consent to the cookies to be valid. Merely mentioning the practice of behavioural advertising in general terms and conditions and/or in privacy policies will not be enough. As a minimum, the user should be given information about who is serving and collecting data from the cookie, the fact that the cookie will be used to build profiles, the type of data that will be used to build the profiles, the fact that the profiles will be used to deliver targeted advertising and that the cookie may enable the user to be identified across multiple websites. The information should be displayed directly on the user's screen. Advertisers will also be required to use icons on adverts indicating those which have been placed through targeted advertising.

There has been uncertainty about the meaning of the new Article 5(3). Was opt-in consent really required? Although this opinion concerns behavioural advertising online, it suggests that actual opt-in consent will be required for any cookies on any website which are more than merely benign. This may cause concern to website operators who may feel that this will damage the user experience.

Click here for the opinion

ASA plans a fee for competitor complaints

As part of a general review of its processes, the Advertising Standards Authority (ASA) is proposing to charge for competitor complaints. That is, complaints to the ASA about an organisation's advertising by one of its competitors. There are no further details at this stage but the ASA is establishing a working group to consider what the charging options might be, working in consultation with advertisers through the ISBA.

There are no proposals to charge members of the public for making a complaint.

The level of the fee will be important. The current absence of a fee is what makes some organisations take complaints to the ASA rather than issue legal proceedings.

More details are likely to emerge next year when the ASA publishes the final part of its processes review.

Click here to read the ASA's report on the processes review

Legal challenge to Digital Economy Act

ISPs BT and Talk Talk are seeking judicial review of the Digital Economy Act. They want the High Court to clarify the legality of the Act before it is implemented.

The Act places a number of onerous obligations on ISPs. They are required to 'police' online copyright infringement by submitting copyright infringement reports to suspected infringers and lists of infringers to copyright owners on request. They can also be subject to technical obligations imposed by the Secretary of State which would require them to impose sanctions on those persistently infringing copyright, including limiting bandwidth or terminating an internet connection altogether. Currently only ISPs with more than 400,000 subscribers will be caught by these provisions of the Act but there are severe penalties if an ISP fails to comply, including fines of up to £250,000.

BT and Talk Talk argue that the Act was rushed through in the 'wash-up' of Parliamentary business prior to the General Election and was not given sufficient Parliamentary scrutiny. They also claim that the Act directly conflicts with European legislation (the E-Commerce Directive) which provides that, in most circumstances, ISPs are 'mere conduits' of content and should not be held responsible for traffic on their networks. They also claim that the Act unfairly targets only larger ISPs giving them a business disadvantage as many of their customers are likely to move to other smaller ISPs once the Act is implemented to avoid detection.

Although the Liberal Democrats were vocal in their opposition to the Digital Economy Act, the coalition government has confirmed that it has no plans to repeal it.

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) 20 7655 1337 or gillian.dennis@hammonds.com