

Sports Governing Body Newsletter

June 2016

EU Trade Mark Reform: Key Opportunities And Risks For Brand Owners

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In December 2015, the European Parliament approved *Regulation (EU) 2015/2424*¹, (the "**Amending Regulation**") and *Directive (2015/2436)*. The new legislation, came into force on 23 March 2016, introduces a number of important changes to the existing EU trade mark legislation, in particular the existing Community Trade Marks Regulation (207/2009/EC) ("**CTM Regulation**") and the Trade Marks Directive (2008/95/EC).

The overarching aim of the reforms is to modernise trade mark systems across the European Union and to foster innovation and growth by making these systems more accessible and effective for businesses by lowering costs and increasing speed and simplicity. The reforms also include provisions designed to enhance brand owners' ability to tackle counterfeiting and will therefore be welcome news for sports brands, particularly those with broader EU and global trade mark portfolios.

This article offers an overview of some of the substantive changes to the EU-wide trade mark regime and examines the key opportunities and risks for sports brand owners in light of these reforms.

Overview of the New Legislation

New terminology

The Amending Regulation implements a general update to European trade mark terminology, bringing it into line with the language of the Lisbon Treaty². Community Trade Marks ("**CTMs**") will now be known as "European Union trade marks"³ ("**EUTMs**") and OHIM is replaced with a newly-established "European Union Intellectual Property Office" ("**EUIPO**")⁴. Other than these new names, the changes in terminology will not have much practical impact.



Reduced fees

The Amending Regulation also introduces a new 'pay-per-class' fee structure⁵, which is already in place in most EU member states, including the UK. Under the CTM regime, applicants were charged a basic fee for the first three classes of goods and services applied for, and a nominal fee for each class thereafter. The basic fee for an application is now €850 online for the first class, followed by a €50 fee for the second class, and €150 for each additional class thereafter. The rationale for this approach is 'de-cluttering' the register and discouraging the making of unnecessarily broad designations in applications.

The 'pay-per-class' system has the potential to increase the cost of some initial applications (particularly where the applicant is seeking protection across a wide range of classes, as is often the case for sports brand owners such as football clubs which apply their branding to a huge variety of merchandise). However, importantly, decreases in other fees (renewal fees, in particular, are substantially reduced), will reduce the overall cost of maintaining a portfolio.

Increased harmonisation

The new legislation introduces a more harmonised approach to trade marks in the European Union. This includes the harmonisation of filing dates and classification of goods and services. Further, the rights of licensees to take action for infringement of national marks will be harmonised, enabling licensees to sue for infringement with the proprietor's consent.

¹ Available at <https://oami.europa.eu/ohimportal/en/eu-trade-mark-regulation>

² Treaty on European Union; Treaty on the Functioning of the European Union

³ Amending Regulation, Article 1

⁴ Amending Regulation, Article 2

⁵ Amending Regulation, Annex I

Other changes include harmonisation of administrative revocation and invalidity proceedings at national level, meaning that applicants will no longer have to opt for the more expensive court proceedings when pursuing a cancellation.

Key Opportunities and Risks for Brand Owners

(1) Maximise access to enhanced rights in respect of counterfeits (Article 9)

Counterfeiting is a well-recognised problem in the sports industry. For example, a recent OHIM study estimated that sales of counterfeit sports equipment such as golf clubs, tennis rackets, balls etc. represented financial losses to the legitimate industry of €500 million and approximately 2,800 job losses⁶. More broadly, given the value attaching to sports brands (particularly in the context of commercial transactions such as sponsorship and merchandising deals), the ability to prevent third parties profiting from 'knock-offs' is integral to any business' brand protection strategy. Trade marks are a crucial tool in this respect, as well as being essential to maintaining brand quality and loyalty; they confer valuable proprietary rights on the owner and, to consumers, they represent *"a promise kept"*⁷.

Under the existing CTM Regulation, brand owners have been faced with an obstacle to seizing counterfeit goods that pass through EU customs but do so only temporarily en route to a final destination in another jurisdiction. This difficulty stemmed from the CJEU's ruling in *Philips and Nokia*⁸, concerning Regulation (EC) No 241/1999 and No 1383/2003 concerning customs action against goods suspected of infringing certain intellectual property rights, in which the court held that:

*"imitations of goods protected in the European Union... cannot be classified as 'counterfeit goods'... merely on the basis of the fact that they are brought into the customs territory of the European Union under a suspensive procedure."*⁹

This left brand owners powerless to seize infringing goods in transit through the EU unless they could show at least an intention to circulate those goods on the EU market. In practice this required evidence of sales or advertisements to EU customers or other correspondence demonstrating an intention to make such sales. Where the goods in question are destined for jurisdictions offering less stringent anti-counterfeiting measures, brand owners are faced with the dilemma of whether to pursue expensive and potentially fruitless enforcement routes in the foreign jurisdiction or do nothing and bear the losses and brand damage caused by the distribution of the infringing goods.

However, the new Article 9(4) confers upon proprietors a new right to seize goods which are in EU customs, even in the absence of any intention to distribute the goods on the EU market. This is aimed particularly at goods in transit and is the (arguably rather belated) response to the CJEU's ruling in *Philips and Nokia*. This should provide a welcome opportunity for businesses to reinforce their brand protection strategies by utilising this new right. However, it is essential to note that the right to seize goods in this manner will fall away where *"the proprietor of the EU trade mark is not entitled to prohibit the placing of the goods on the market in the country of final destination"*¹⁰.

This proviso in the second paragraph of Article 9(4) means that brand owners should look to secure registrations in jurisdictions which it considers high risk in respect of the sale of counterfeit goods in order to ensure they can benefit from the maximum protection offered by the new EU legislation. Leaving significant gaps in the worldwide protection of their trade marks will expose brand owners to the risk that counterfeiters will 'slip through the net' of Article 9(4) by selecting final destinations in which most brand owners are unlikely to have a valid registration or which lack a sophisticated and easily accessible anti-counterfeiting regime. For example, whilst most brand owners will consider securing trade mark registrations in the US, if goods are destined for less frequently protected jurisdictions such as Panama, notwithstanding Article 9(4) it will still prove difficult for a brand owner to seize infringing goods in European Union ports.

(2) Secure (or enhance?) existing registrations (Article 28)

The CJEU's decision in *IP Translator*¹¹ changed the approach to interpreting the scope of protection afforded to trade marks for which only the relevant Nice Class heading (without further specification) was designated in the application. Previously, OHIM's practice had been taken to encompass the entire scope of goods or services falling under the relevant class. However, in *IP Translator* the court held in essence that such 'headline designations' could only be construed as protecting the relevant mark in respect of the goods or services covered by the literal meaning of those words. Thus a 'headline registration' in, for example, class 9, which covers –

"Scientific, nautical, surveying, photographic, cinematographic, optical, weighing, measuring, signalling, checking (supervision), life-saving and teaching apparatus and instruments; apparatus and instruments for conducting, switching, transforming, accumulating, regulating or controlling electricity; apparatus for recording, transmission or reproduction of sound or images; magnetic data carriers, recording discs; compact discs, DVDs and other digital recording media; mechanisms for coin-operated apparatus; cash registers, calculating machines, data processing equipment, computers; computer software; fire-extinguishing apparatus"

would be unlikely to encompass certain goods that are frequently registered in that class, such as mobile phone cases and covers.

6 OHIM, *"The economic cost of IPR infringement in sports goods"*, September 2015, available at <https://oami.europa.eu/ohimportal/en/web/observatory/observatory-publications> (viewed on 21 January 2016)

7 World Intellectual Property Office, online publication on "Sport and Branding", available at <http://www.wipo.int/ip-sport/en/branding.html> (viewed on 21 January 2016)

8 Joined Cases C-446/09 and C-495/09, Judgment of 1 December 2011

9 *Philips and Nokia*, op cit, para 79

10 Amending Regulation, Article 9(4)

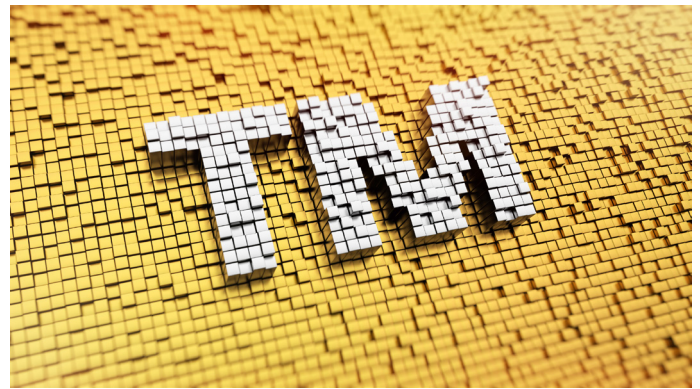
11 *Case C-307/10*, Judgment of 19 June 2012

The Amending Regulation codifies the approach in *IP Translator*¹² but, under Article 28(8), offers proprietors of marks applied for prior to 22 June 2012 a six month window of opportunity (until 24 September 2016) to make a declaration to EUIPO if their *"intention on the date of filing had been to seek protection in respect of goods or services beyond those covered by the literal meaning of the heading of that class"*.

An alternative to making an Article 28 declaration (by positively specifying goods and services which fall outside the literal meaning of the class heading) may be to surrender particular goods and services under Article 50. This method exists under the current CTM Regulation and remains under the Amended Regulation. It enables owners to remove the 'headline designation' and replace it with a more precise list of the goods and services in the full alphabetical list which falls under the relevant class heading (provided at least one item is 'surrendered'). However, after 24 September 2016, a partial surrender would only be feasible if the more specific item falls under the literal meaning of the wording in the respective class. It is therefore imperative for brands to review CTM portfolios which pre-date June 2012.

At the time of writing, OHIM has yet to publish a formal communication on its approach to Article 28 declarations, although it has advised that guidance will be available by 23 March 2016 (the date on which the period for making an Article 28 declaration commences)¹³.

Whichever route is taken, proprietors have effectively been presented with two tools by which to define the scope of their portfolios. On the one hand, they have an opportunity to specify goods and services which will otherwise no longer be included within the remit of the relevant class heading, thereby enhancing their protection. On the other hand, they are being given the opportunity to surrender monopolies which are potentially within the scope of the original registration, thereby reducing the risk of a revocation action against their CTM registration for specific products or services in relation to which the mark is not in fact used. Owners will need to consider not only the protections which they can safely surrender but they must also give careful thought to the goods and services for which their marks are, in truth, distinctive, as an unduly broad specification risks damaging the validity of the mark.



(3) Consider applications for 'non-traditional' marks? (Article 4)

Traditionally, marks have been registrable only if they are capable of being *"represented graphically"*¹⁴. The *Sieckmann* criteria¹⁵ further required that visual representation must be *"clear, precise, self-contained, easily accessible, intelligible, durable and objective"*¹⁶. The Amending Regulation removes this requirement for graphical representation and provides, in Article 4(b), that an EUTM may consist of any sign which is capable of:

"being represented... in a manner which enables the competent authorities and the public to determine the clear and precise subject matter of the protection afforded to its proprietor."

In principle, this new wording opens up the register to a wider range of 'non-traditional' marks. However, its practical effects should be assessed with caution in view of the wide range of marks that are already capable of registration through graphical representation. Whilst the new wording will doubtless make for easier applications for marks such as sounds, motions, and 3D images, it is difficult to conceive of much that is truly incapable of some form of graphical representation under the current regime. For example, tunes and other sounds can be represented through musical notation or sonograms, 3D shapes (such as packaging) can be drawn, and movement marks can be set out in a series of stills. The new wording will no doubt incentivise some creative applications but the wider commercial impact seems likely to be minimal. This may, however, prove an interesting area of development as technology continues to advance and brands embrace new types of consumer focussed content.

12 Amending Regulation, Article 28(2)-(5)

13 Supplemental Note (9 June 2016): OHIM has now issued a number of guidance documents, including a *"Communication of the Executive Director concerning the implementation of Article 28"*, *"Frequently Asked Questions: Declarations under Article 28(8)"*, which are available at: https://euipo.europa.eu/ohimportal/en/news?p_p_id=csnews_WAR_csnewsportlet&p_p_lifecycle=0&p_p_state=normal&p_p_mode=view&p_p_col_id=column-1&p_p_col_count=2&journalId=2946843&journalRelatedId=manual/

14 CTM Regulation, Article 4

15 Case C-273/00, *'Sieckmann'*, judgment of 12/12/2002

16 OHIM, *"Guidelines for examination in the Office"*, Part B, para 2.1.1; *Seickmann*, op cit, paras 46 – 55; Case C104/01, *'Libertel'*, judgment of 06/05/2003, paras 28 – 29

Comment

In the run-up to the introduction of the reforms, businesses will no doubt be looking to review their portfolios in order to maximise potential benefit and also to ensure that their rights remain fully protected. Brand owners will seek to close gaps in their foreign jurisdiction protections in order to obtain the maximum protection under the new Article 9 wording, and portfolios which pre-date June 2012 will be scrutinised with a view to reframing and defining the scope of protection. Similarly, brand owners may wish to consider new registrations for non-traditional marks under the new Article 4 wording, which will make the representation of marks such as sounds, holograms, and possibly smells more accessible. The ability to seize goods in transit under Article 9 is likely to prove particularly valuable to sports brands (such as clubs or apparel brands) whose marks are applied to a wide range of consumer products and are popular worldwide, making them vulnerable to counterfeiting in non-EU jurisdictions.

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Sports Immigration: Brexit's Latest Political Football

What would the impact be on UK sports, and in particular football, if the UK were to exit the EU?

In the *Bosman* ruling in 1995 the European Court of Justice declared that, in accordance with the Treaty of Rome's rules regarding the principle of freedom of movement for workers, EU sportspeople can ply their trade in any other EU Member State without any restriction on the grounds of nationality. As such, an EU national has the same rights to play here as any UK national player.

If it left the EU, the UK would no longer necessarily be bound by those principles of free movement. On the face of it, EU sportspeople would then be subject to the same criteria-based tests as "foreign" (i.e. non-EU national) players before they could join a British team.

These tests are set out by each UK sport's governing body (for example, the Football Association, the Rugby Football Union or the English Cricket Board – they are not homogenous across different sports). The criteria will have been agreed and established as a result of discussions between the governing body and the Home Office, which must be satisfied that the applicant is of sufficient calibre to benefit the sport. Here we will look at football but the same principles will apply to pretty much everything from cricket to darts and curling to swimming.

All non-EU sportspeople must secure pertinent immigration permission before taking the field for a British club. To be granted that permission by the Home Office, UK clubs must first secure a Governing Body Endorsement, and if issued assign either (i) Tier 2 (sportsperson) or (ii) Tier 5 (temporary worker) certificates of sponsorship to the player and then apply for leave to enter or remain in the UK.

- (i) The Tier 2 (sportsperson) category is for elite players and coaches who are internationally established at the highest level and whose employment will make a significant contribution to the development of their sport at the highest level in the UK, and who will base themselves in the UK. There is a minimum standard of English required. They can be granted a stay of up to five years.
- (ii) The Tier 5 (temporary worker)—creative and sporting category—is also for players who are internationally established at the highest level in their sport, and will make a significant contribution to the development of their sport in the UK. However, they do not need to satisfy any English language criterion. They can be granted a stay of up to 12 months, after which a fresh application must be made.



In May 2015, the FA introduced more stringent immigration requirements for non-UK footballers to ensure that only the best non-EU footballers are granted permission to play in England. Now players must have played for a country in the Top 50 when world rankings are averaged over the two previous years. Previously, it only had to be in the Top 70.

Pre-May, players had to have appeared in at least 75% of their country's international matches over the past two years. Now it is in at least 30% of matches in the last two years (12 months if the player is aged 21 or under) if their country is ranked in the top 10, 45% if ranked between 11th and 20th, 60% between 21st and 30th, and 75% if between 31st and 50th.

There are currently about 160 players from the EU in the Premier League and it has been claimed that two-thirds of them would not satisfy the new, stricter criteria determining which non-EU players should be granted a visa.

So is that it? An end to the journeyman EU player lugging his kitbag across the Channel for a spell in Europe's most lucrative league before heading off to the US or China? Maybe this would create more space and impetus for the development of local talent, which would have to be a good thing. Maybe, on the other hand, it would just undermine the quality and competitiveness of UK teams in Europe (assuming we were still welcome in the Champion's League and Europa Cup competitions, which is probable but not a given), and limit the revenues coming into English football from European broadcast and merchandising rights.

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These are mere details in the overall impact of a Brexit on the economy or migration or security or trade. But would you want to be the government accused by the whole nation of filleting its favourite sport? It has to be assumed that even now there is a basement in Whitehall where measures to prevent this are under fevered consideration. So what could the government do?

From a purely practical perspective, any move away from a points-based system (as currently in place) would be difficult to imagine. Realistically, it is unlikely that the government would be able to justify making wholesale, radical changes to its immigration policies solely to benefit sportspeople, though as this would all hit in the run-up to the next General Election, someone may be thinking about it anyway.

A possible compromise might be to remain under the framework of a points-based system, but to relax the requirements for Tier 5 certificates of sponsorship. This would have the effect that more sportspeople would be allowed into the country on a short-term basis, but they would then have to prove that they sufficiently benefit the domestic leagues and/or the sport in the UK before being granted an extension. This of course would create a significant increase in administration for the Home Office and for UK clubs, but both might think it a worthwhile investment. It could however be a deterrent for players weighing offers from clubs in other jurisdictions too.

In the previous paragraphs we have looked at the impact of a Brexit on EU sportspeople wanting to work in the UK. That is to some extent in our own hands.

However, arguably the bigger impact would be on UK sportspeople wishing to work in the EU. By our leaving the EU, they would no longer be able to make use of the principles of free movement for workers either.

Just as the UK's sporting governing bodies currently set the criteria that non-EU sportspeople must satisfy to play for UK sports teams, UK footballers would have to satisfy those set out by the governing body in question when wanting to move to a club in the EU. These regulations will be sport-specific and country-specific and may be no less strict than the UK's. It would become a much more challenging prospect for any UK player – other than the most elite internationals – to move to an EU club.

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Managing Your Reputation: Are You Prepared?

With the advent of technology, those within the sport's industry have long been aware of the value in protecting their intellectual property. Perhaps less common is the thought given to the protection of one's reputation in the technologically advanced world we live in where a picture or tweet can go viral in the blink of an eye.

Reputation Management has long been perceived as the preserve of the rich and famous and not relevant for lesser known or non-for-profit individuals and bodies. Recent events have made it abundantly clear that sports governing bodies ignore this issue at their peril. Hard earned reputations can be seriously harmed if adequate provisions and protections are not in place.

Sports fans have never been required to wait long for the next Twitter furore regarding athletes, however some issues are so big they transcend the individual and have an effect on the sports itself, or worse still, relate to the action or inaction of a governing body. Some of the larger scandals over the last 12 months range from those relating to corruption and integrity issues in football, cricket and tennis to one off incidents such as "Deflategate", Luis Suarez's infamous bite of Giorgio Chiellini or racist comments attributed to Donald Sterling, the now former owner of the LA Clippers.

In the past a number of these issues would not have been known about or discussed publically to anywhere near the same extent. Now they make front page news and are discussed, blogged and tweeted about at length for months after.

The challenge for governing bodies is that they will often be judged by the actions of their athletes, i.e. those whom they govern, rather than their own actions. Is it right for instance that the International Cricket Council should be criticised for its perceived failure to deal with match fixing when faced with an online gambling industry which has developed a system so open to manipulation? Contrast this with the alleged action of a number of FIFA's Executive Committee members who, if the allegations are found to be true, will only have themselves to blame for the predicament they now find themselves in.

When dealing with serious violations of conduct, governing bodies will often find themselves in the invidious situation of having to spend significant amounts of money investigating and determining charges in relation to events in which they have had no direct involvement. They will also often be required to make determinations in respect of disputed facts which will have a significant impact on the reputation and livelihood of those concerned.

The fact that a modern athlete will often have a number of commercial endorsements and agreements in place mean they too are becoming increasingly aware of the need to maintain their own reputation.

What Then Should a Governing Body Be Aware of When Undertaking the Disciplinary Process?

The case of *Gregory v Portsmouth City Council* [2000] 2 WLR 306 was important in establishing that it is not possible to bring a claim for malicious prosecution as a result of bringing proceedings negligently. Rather the court held that the only tortious remedy arising from damage to a claimant's reputation lay in defamation or malicious falsehood.

Whilst it may be unsettling that claims can be brought at all in the event disciplinary proceedings are brought unsuccessfully or overturned on appeal, it must be seen in the context of the remedies available to Governing Bodies who find themselves in this situation both by way of statute and at common law.

Together with being able to justify any allegation on the basis they are true, the most obvious defence available is one of qualified privilege. Qualified privilege exists in a situation where a person is acting under a duty to another with a corresponding interest and where the defendant reasonably believed that publishing the relevant statement was in the public interest. The court will consider all the circumstances of the case to decide if these conditions have been met.

In order to benefit from the qualified privilege any report or publication concerning the proceedings needs to be a fair and accurate reflection of those proceedings. Straying outside of this important proviso or missing out crucial findings in the judgments or reports can have serious consequences and leave the governing body open to a claim in defamation.

Whilst this is the most likely defence to be deployed by a governing body threatened with libel proceedings it is not an absolute defence and can be overcome if the claimant can establish malice on the part of the governing body; this is however a very difficult hurdle to overcome.

Another issue which governing bodies should be alive to is that of data protection. This is becoming an increasingly popular add-on for reputation claims as a result of the uncertainty arising from s.13(2) of the Data Protection Act 1998 and the decision in *Google v Vidal-Hall* [2015] EWCA Civ 311 that an individual can recover damages for distress as a result of the misuse of their personal data.

Defences to damages claims under the Data Protection Act may be available in the event that the governing body has no physical presence or data processing equipment in the UK or any other EEA state, and if for instance within their agreement with the governing bodies athletes have specifically consented for their personal data to be processed during the disciplinary proceedings.

If a Governing Body Does Find Itself the Subject of Media Scrutiny What Should It do to Best Protect Its Reputation?

In the event that a governing body becomes the subject of media scrutiny it is important that it is prepared to deal with any journalistic enquiry it may receive. It should prepare in advance who will be responsible for dealing with media enquiries – being able to react quickly will afford the best possible opportunity of maintaining reputation. Response teams should preferably include a reputation management and PR/communications professional.

The following are recommended steps to be implemented by governing bodies in anticipation of being contacted by the media:

1. Ensure that all employees are aware of the relevant individual/team to whom all enquiries should be channelled and, to ensure consistency, that anyone not on this team does not make any comment.
2. If contacted by the media this can be used as a chance to correct any false assertion or get the governing body's side of the story across. It is virtually impossible to obtain a pre-publication injunction for defamation therefore it is often better to communicate the key messages to the journalist. A "no comment" response is likely to be interpreted as an admission of guilt.
3. Saying nothing can often be the best course of action especially if the allegations made are true.
4. Be careful not to defame third parties. Two of the main defences to a defamation claim are (i) truth; and (ii) honest opinion based on fact, so be sure of the facts before blaming others.
5. Be aware that anything that is said may be used by regulators, insurers, athletes and/or in litigation against the Governing Body. Also consider any ongoing legal proceedings.



Publications

If the media has already published false and defamatory allegations, it may be possible to obtain a correction and/or apology by deploying defamation law and/or the relevant press regulations. It is generally easier for a media organisation to amend or add a statement to an online piece than to publish something in the next hard copy edition. Moreover, online content is arguably more important to correct or balance, since it is searchable and can be available forever.

It should be noted that defamation claims may more be difficult than previously for two reasons arising from the implementation of the Defamation Act 2013. Firstly the need to establish that the claimant has suffered or is likely to suffer serious harm as a direct result of the publication – for bodies that trade for profit serious harm equates to serious financial loss. Secondly, even if this can be established the media is likely to rely upon the defence available in respect of publications on matters of public interest.

This makes it all the more important to involve (i) specialist communications teams to deal with issues arising from the leak; and/or (ii) litigation experts with the knowledge to advise on the risks associated with such claims.

Social Media

Recent experience also suggests that particularly sensitive issues can generate significant comment on social media (Twitter, Facebook etc.). It is important therefore to communicate key messages through these channels also whilst noting not to get embroiled in online debates before the full facts are known.

In light of the potential issues that can arise, as highlighted in this article, it is important that Governing Bodies have in place adequate safeguards to protect and preserve their reputations.

For further information on this topic please listen to a recording of our [recent webinar](#) or contact a member of our team.

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Commercial Update

New Data Protection Regulation

The new [Data Protection Regulation](#), which will replace the 1995 Data Protection Directive, has now been agreed. It will have a major impact on businesses in all sectors. It strengthens protections for, and rights of, individuals (including employees and consumer customers), with tough extended rules about informing individuals about processing and obtaining consent, as well as imposing some new obligations and beefing up others. It gives regulators the power to fine up to €20 million, or 4% of global turnover. The many changes include mandatory notification of data breaches and the requirement to design processes and systems to meet privacy requirements. The regulation will come into force during mid-2018, but preparations should ideally begin now. As a starting point it is useful to perform data audits, in order to get a clear picture of what personal data is being processed in the business and to assess the nature and scope of the compliance that will be required, once the new law comes into force.

The Impact of a Brexit on Intellectual Property Rights

If the UK leaves the EU following the Referendum on 23 June, existing EU Trade Marks (formerly known as Community Trade Marks) may no longer have effect in the UK and will possibly have to be re-registered as national UK rights. New applications for EU Trade Marks filed after a Brexit may not cover the UK either, meaning that separate applications for UK national rights would be required. Both are likely to result in additional IP protection costs for businesses. Existing (or future) European Patents designating the UK will be unaffected by a Brexit, as the current European Patent system is not related to the UK's membership of the EU. However, protection under the new Unitary Patent system, due to be introduced in early 2017, would not extend to the UK.

UK Supreme Court Ruling on When Terms Will Be Implied Into Commercial Contracts

The UK Supreme Court has clarified when a court will imply terms into commercial contracts. The clarification was given by the Supreme Court in its ruling in the case of *Marks and Spencer plc v BNP Paribas*.

Until 2009, the legal position on implied terms was clear. A term would be implied where this was necessary for business efficacy or where implication of the term was so obvious it went without saying. However, a Privy Council ruling in 2009 cast doubt on whether these were the correct tests. This was the case of *Attorney General of Belize v Belize Telecom*. The judgment in the *Belize* case was interpreted as saying that a term could be implied into a contract where it was merely reasonable to do so. In *Marks and Spencer plc v BNP Paribas*, the Supreme Court has said that this was a misinterpretation of the *Belize* ruling and that, in light of this, *Belize* should not be regarded as an authority on the law of implied terms.

The Supreme Court reinstated the pre-*Belize* position and confirmed that the traditional tests for implying a term into a commercial contract (necessary for business efficacy or so obvious it goes without saying) are the right ones. The Supreme Court also reiterated the pre-*Belize* position that the Court must also be satisfied that it is reasonable and equitable to imply the term, that the implied term is capable of clear expression and that the implied term will not contradict any express term of the contract. This is an important ruling and one which lawyers involved in the drafting or implementation of commercial contracts, or contract disputes, should be aware.

UK Supreme Court Restates Principles of Contractual Interpretation

The UK Supreme Court has also given an important ruling on how the courts should interpret commercial contracts. This was the case of *Arnold v Britton*. The Supreme Court confirmed the existing legal position that the court aims to “identify the intention of the parties by reference to what a reasonable person, having all the background knowledge which would have been available to the parties, would have understood them to be using the language in the contract to mean”. That meaning, the Supreme Court said, has to be assessed in light of the natural and ordinary meaning of the clause in question, the surrounding circumstances and commercial common sense.

Where the Supreme Court extended the existing legal position was in its judgment on the interplay between the “natural meaning” of the clause and the use of “commercial common sense”. The Supreme Court emphasised that the natural meaning of the words was paramount. Commercial common sense should not be used to undervalue the importance of the language used by the parties. Also, commercial common sense should not be used as a reason to reject the natural meaning of the words used in a clause simply because it appears to be a very imprudent term for one of the parties to have agreed. However, the less clear the words are, the more the court will be willing to depart from their natural meaning and substitute a meaning based on commercial common sense.

The ruling is a helpful reminder for those involved in contract drafting or contract disputes on the principles of contractual interpretation. Where the natural meaning of the words is clear, commercial common sense has no place. It is clear from the ruling that freedom of contracting prevails and that a court will be slow to interfere with the agreement reached between the parties, and will not step in merely to rectify a bad bargain.



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