Hammonds

COMMERCIAL AND INTELLECTUAL PROPERTY LAW

BULLETIN

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

This edition includes a review of the Court of Appeal's decision on when a website owner will be liable for misstatements made on its website, an update on the new procedures adopted by the customs authorities for seizing IPR infringing goods and a look at the new test to be used by the courts in deciding whether to imply a term into a commercial agreement.

Please note that this bulletin is intended merely as a brief update on recent commercial caselaw. Nothing in it constitutes legal advice. You should not rely on it in relation to any specific legal problem without making your own independent enquiries and seeking legal advice.

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COMMERCIAL

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House of Lords upholds exclusionary rule

In the case of *Chartbrook Limited v Persimmon Homes Limited*, the House of Lords has reaffirmed that the exclusionary rule will apply when a court is asked to interpret an ambiguous contract.

Facts

Chartbrook and Persimmon entered into a contract for the development of land. The contract price to be paid by Persimmon to Chartbrook consisted of two elements; a fixed element and a 'Balancing Payment' the amount of which depended on the number of properties sold and the price achieved for each. Balancing Payment was defined in the contract as:

> *"23.4% of the price achieved for each Residential Unit in excess of the Minimum Guaranteed Residential Unit Value less the Costs and Incentives".*

There was a dispute over how this clause worked in practise. Chartbrook's interpretation was that the Minimum Guaranteed Residential Unit Value and the Costs and Incentives should be deducted from the price achieved for each Residential Unit and Persimmon should pay 23.4% of the balance. Persimmon's interpretation was that the Costs and Incentives should be deducted from the price to find the net price. 23.4% of the net price should then be calculated and Persimmon should pay the amount by which this sum exceeded the Minimum Guaranteed Residential Unit Value. On its interpretation, Persimmon would be obliged to pay £900,000. On Chartbrook's interpretation, Persimmon would be obliged to pay £4.6 million.

The dispute made its way to the House of Lords. On the facts, Persimmon's interpretation was preferred as the "rational meaning" but the decision has wider implications in relation to what was said about how the courts should go about interpreting an ambiguous contract.

Decision

The House of Lords emphasised that the approach to be taken to the interpretation of ambiguous contracts is that set out in the *Investors Compensation Scheme v West Bromwich* case, namely that the courts should give the contract the meaning that a reasonable person would give it having all of the background information that was available to the parties at the time that the contract was made. The courts say, rather confusingly, that in making an objective assessment of the contract in this way they are giving effect to the intentions of the parties.

The courts have created the 'exclusionary rule' which means that, when called on to interpret a contract, they will accept evidence of the background information that was available to the parties when they made the contract but not evidence of the pre-contractual negotiations that took place. In this case, Persimmon sought to challenge the exclusionary rule arguing that it was illogical and actually prevented a court from ascertaining the parties' intentions.

The House of Lords refused to overturn the exclusionary rule. It said that the rule reduced the cost and duration of trials and lead to greater certainty of outcome in disputes of this nature. It also said that evidence of pre-contractual negotiations would be unhelpful as this correspondence would be "drenched in subjectivity" and it would be difficult for the court to separate out what was "aspirational" and what was "consensus". The court said that it did have the power to depart from established judicial authority where an earlier decision was impeding the development of the law but it did not believe that the exclusionary rule was doing that. This rule, if it were to be amended or abolished, would need to be amended or abolished by legislation.

Comment

This decision has unequivocally affirmed that the exclusionary rule is firmly entrenched in English law. However, practically, it is likely that parties to an interpretation dispute will put evidence of pre-contractual negotiations before a court. Parties in such a dispute often seek rectification of the contract and evidence of pre-contractual negotiations is admissible where such a claim is made. Also, the parties are able to submit evidence of the background information that was available to them when they made the contract. In this case, Lord Hoffman stated that there were "no conceptual limits to what could be regarded as background information" which leaves the door open for pre-contractual negotiations to arguably form part of this background information. However, there is always a risk that such evidence will be rejected and this could have a direct impact on the interpretation reached. This case is a useful reminder, therefore, that commercial agreements should always be carefully drafted to avoid the likelihood of questions of interpretation coming before a court.

Further reading

Click here for a copy of the judgment

No liability for negligent misstatement if website disclaimer used

In the case of *Gary & Karen Patchett v Swimming Pool & Allied Trades Association Ltd* (SPATA), the Court of Appeal has considered the extent to which SPATA owed Patchett a duty of care in making certain statements on its website.

Facts

The Patchetts were looking for a contractor to build them a swimming pool in the garden of their home. SPATA is an incorporated trade association. Its membership includes most of the major swimming pool installers trading in the UK. In his search for a contractor Mr Patchett came across SPATA's website via Google. SPATA's homepage had a series of drop down menus, which included 'SPATA INFORMATION' and 'MEMBER SEARCH'. The homepage itself was headed 'WHO AND WHAT IS SPATA?' and had ten paragraphs listed beneath. The information in these paragraphs included the following:

(1) "*Installing a swimming pool is a specialised task requiring skills and technical expertise in a number of different areas. One way of guaranteeing that the pool installation company has this expertise is to make sure that they are a member of SPATA before contacting them for a quotation"*

(2) "SPATA is the trade association for the swimming pool industry in the UK…"

(3) "SPATA pool installer members are fully vetted before being admitted to membership, with checks on their financial record, their experience in the trade and inspections of their work….. Only SPATA registered pool and spa installers belong to SPATASHIELD, SPATA's unique Bond and Warranty Scheme offering customers peace of mind that their installation will be completed fully to SPATA standard – come what may!"

(4) "SPATA supplies an information pack and members lists which give details of suitably qualified and approved installers in the customer's area. The pack includes a Contract Check List which sets out those questions that the customer should ask a would-be tenderer together with those which must be asked of the appointed installer before work starts and prior to releasing the final payment."

In reliance on the information on the site, Mr Patchett obtained the contact details of three member companies and got quotes from them. One of the three was Crown Pools and Mr Patchett accepted this quotation. Mr Patchett did not apply for an information pack or make any further enquiries about the SPATASHIELD cover.

Crown began the work but did not complete it. Mr Patchett paid the instalments due but Crown was in serious financial difficulties. It wrote to its customers saying that it was technically insolvent and that it had ceased trading. The Patchetts had the work completed by another contractor and suffered financial loss as a result. They brought proceedings against SPATA claiming that paragraphs (1) and (3) above were negligent misstatements in that they were inaccurate and misleading because, as the Patchetts had subsequently discovered, only 'full' members of SPATA underwent the checks on their financial record and work standard and were covered by SPATASHIELD. As it turned out, Crown was not a full member of SPATA. None of this was apparent from the website.

Decision

The question for the Court of Appeal was whether SPATA owed the Patchetts a duty of care. It applied a threefold test to determine this, namely (1) was the loss suffered by the Patchett's reasonably foreseeable; (2) was there a sufficient degree of proximity between the parties; and (3) would it be fair, just and reasonable to impose a duty of care on SPATA.

The Court of Appeal held by a majority that SPATA did not owe the Patchetts a duty of care. Whilst SPATA no doubt knew that the representations on its website would be likely to be acted upon by people like the Patchetts, it would not expect them to do so without further enquiry. It held that the website, when read as a whole and in particular paragraph (4) above, urged further enquiry. The website made it clear that SPATA supplied an information pack. The customer was expected to obtain this. The availability of information packs acted as a disclaimer by SPATA in relation to the accuracy of the information on its website. It made it clear that users should not rely on the information on the site without further enquiry. This meant that it would not be fair, just and reasonable to hold that SPATA owed the Patchetts a duty of care. The mere fact that the statements were on a website did not support the conclusion that a duty of care was owed.

Lady Justice Smith gave a dissenting judgment in which she held that SPATA did owe a duty of care to the Patchetts. She said that paragraph (4) above did nothing more than merely offer the information pack that gave advice on how to deal with a contractor. There was no link made between the pack and the SPATASHIELD scheme. Nor was there any suggestion that the pack might limit the reliance that the customer could place on the statements on the website that a particular contractor was a member of SPATA and therefore a good contractor to engage. In those circumstances, the reference to the information pack did not act as a disclaimer and did not suggest to the customer that it should not rely on the information on the site without further enquiry.

Comment

The case is a helpful illustration of the application of the tort of negligent misstatement to websites. Website owners will welcome this decision. It has highlighted the importance of disclaimers on websites that provide information on which users are likely to rely. Indeed, the 'disclaimer' used in this case (the offering of the information pack) was the reason that SPATA was found not to be liable. How useful website disclaimers are is generally questionable but this case does suggest that, going forward, it may be advisable for website owners to include an appropriate disclaimer on their site. This should make it clear that they are not inviting website users to rely on the contents of their website without further enquiry. The disclaimer should be displayed prominently on the site to ensure that it comes to customers' attention.

Further reading

Click here for a copy of the judgment

Court of Appeal reformulates implied term test

In the case of *Mediterranean Salvage & Towage Limited v Seamar Trading Inc*, the Court of Appeal has reformulated the test to be used by the courts in deciding whether a term should be implied into a commercial agreement.

Background

Over time, the courts have created a number of tests for determining whether a term should be implied into a contract. These include the officious bystander test, the necessity test and the business efficacy test. There has been some confusion over whether these tests are different with different outcomes or the same and leading to the same result.

In the recent case of *Attorney General of Belize v Belize Telecom Limited* (reported in the April edition of this bulletin), Lord Hoffman in the Privy Council condensed these various tests into one namely, 'would the implied provision spell out in express words what the contract would be reasonably understood to mean?' He said that there was no requirement that the implied term be fair, reasonable or obvious.

Decision

In the *Mediterranean Salvage* case the Court of Appeal accepted this new test but expanded it by adding a further question, namely 'is implication of the term necessary to make the contract work?'

Comment

We now have greater certainty about the test that the courts will apply in deciding whether to imply a term into a contract, which is will the implied provision spell out in express words what the contract would be reasonably understood to mean and is implication of the term necessary to make the contract work? However, how this test will be applied in practise will vary from court to court and so we do not have greater certainty of likely outcome. In this sense, we are no further forward. It is still the case that it is difficult to persuade a court to imply a term into a commercial agreement, particularly where the parties to the agreement are commercial organisations that contract regularly and have received legal advice. A commercial agreement should always be drafted carefully and comprehensively to avoid the question of whether a term should be implied ever arising.

Further reading

Click here for a copy of the judgment in the Mediterranean Salvage case

Click here for a copy of the judgment in the Belize case

Without prejudice exchanges admissible for interpretation of a settlement agreement

In the case of *Oceanbulk Shipping & Trading SA v TMT Asia Limited & 3 Others*, the High Court has ruled in favour of allowing without prejudice exchanges to be adduced as evidence where there is a dispute over the interpretation of a settlement agreement.

Facts

A dispute arose between the parties over the interpretation of a settlement agreement which, if interpreted one way would result in a payment of US$47 million to Oceanbulk or, if interpreted the other, would result in a payment of US$86 million to TMT.

In support of its interpretation, TMT sought to adduce without prejudice exchanges made between the parties before the settlement agreement was concluded which it asserted were important to the proper interpretation of the settlement agreement. In response, Oceanbulk sought a declaration that "evidence of negotiations conducted 'without prejudice'….is inadmissible, absent mutual waiver".

Decision

The High Court held that the without prejudice exchanges could be adduced as evidence to the extent that they would have been admissible had the exchanges not been without prejudice.

The court considered some of the existing exceptions to the without prejudice rule and, in particular, the exception which allows without prejudice evidence to be adduced where the issue is whether the without prejudice communications have actually resulted in a concluded settlement agreement. The court found that it would be illogical to admit evidence about whether a settlement has been concluded without also admitting evidence about what the terms of the settlement were. The reasons the court gave for this were:

- there was no public policy reason to justify a distinction between admitting without prejudice evidence for the purpose of identifying the terms of a settlement agreement and identifying the meaning of those terms;
- authority for allowing the evidence could be found in the case of *Admiral Management Services Limited v Para-Protect Europe Limited*;
- as without prejudice evidence is admissible for the purpose of determining whether an agreement should be rectified, it should also be admitted to enable interpretation of an agreement;
- the interests of justice required the interpretation of a settlement agreement to be determined by reference to the parties' without prejudice exchanges.

Comment

Although heavily influenced by the judgment in *Admiral Management Services Limited v Para-Protect Europe Limited* the decision is radical and extends the scope of the exceptions to the without prejudice rule.

The practical implication of this case is that parties should be aware when negotiating a settlement that the contents of any without prejudice communications may become admissible if there is a dispute as to the proper interpretation of the settlement agreement.

Further Reading

Click here for a copy of the judgment

Care required when drafting definitions and recitals following Court of Appeal decision

In the case of *Oxonica Energy Limited v Neuftec Limited*, the Court of Appeal was asked to interpret a patent licence. The decision in this case was confined to the facts and is not discussed further here. However, the case has wider implications for the future drafting of commercial agreements.

Decision

The Court of Appeal was asked to interpret the meaning of 'Licensed Product'. This was a defined term in the licence and was relevant to the calculation of royalties payable by Oxonica to Neuftec. The effect of the decision reached by the Court of Appeal was that this defined term was given two different meanings within the same patent licence: one meaning in the grant clause and a different meaning in the royalties clause. As justification for this decision, the Court of Appeal focused on the wording at the beginning of the definitions section, which read:

> "*In this Deed, the following words and expressions shall, except where the context otherwise requires, have the following respective meanings*"

The Court of Appeal relied specifically on the words "*unless the context otherwise requires*" to give it the authority to re-define a defined term saying simply that the context required it. This effectively re-wrote the royalties section of the licence and was a costly decision for the losing party. The Court of Appeal also derived support from the recitals to the licence. These were brief, fairly generic and had been added by the parties as something of an afterthought towards the end of the drafting process.

Comment

The words "*unless the context otherwise requires*" or similar are used as a matter of course in commercial agreements. This case calls into question whether that practice should continue. One reason for using defined terms is to create certainty and minimise ambiguity in an agreement. Following this case, it seems the use of the phrase "*unless the context otherwise requires*" without a specific reason for doing so could undermine that objective.

The case is also a reminder that the courts will consider the recitals when interpreting an agreement. Care should be taken, therefore, when drafting these to ensure that they accurately reflect the background to the agreement and what the parties intend the agreement to mean.

Further reading

Click here for a copy of the judgment

Court of Appeal rules on the application of UCTA to international supply contracts

In the case of *Trident Turboprop (Dublin) Limited v First Flight Couriers Limited*, the Court of Appeal has interpreted aspects of section 26 of the Unfair Contract Terms Act 1977 (UCTA).

Background

Section 26 states that exclusions and limitations of liability in an international supply contract are not subject to the requirement of reasonableness in UCTA:

26(1) *The limits imposed by this Act on the extent to which a person may exclude or restrict liability by reference to a contract term do not apply to liability arising under such a contract as is described in subsection (3) below.*

26(2) *The terms of such a contract are not subject to any requirement of reasonableness …*

An international supply contract is defined as *one whose characteristics are the following*:

26(3)(a) *… a contract for the sale of goods or one under which possession or ownership of goods passes; and*

26(3)(b) *it is made by parties whose places of business are in the territories of different States.*

26(4) *A contract falls within subsection (3) above only if either:*

(a) *the goods are, at the time of conclusion of the contract, in the course of carriage, or will be carried from, the territory of one State to the territory of another; or*

(b) *the acts constituting the offer and acceptance have been done in territories of different States; or*

(c) *the contract provides for the goods to be delivered to the territory of a State other than that within whose territory those acts were done.*

Therefore, to be an international supply contract, a contract must satisfy both conditions in 26(3) and one condition in 26(4).

The restrictions on a contracting party's ability to exclude or limit its liability for misrepresentation are set out in section 3 of the Misrepresentation Act 1967. Section 3 stipulates that any such exclusion or limitation will only be effective if it satisfies the reasonableness test in UCTA. Section 3 was inserted into the Misrepresentation Act 1967 by section 8 of UCTA.

Facts

Trident Turboprop (TT), based in Dublin, agreed to lease aircraft to First Flight (FF), based in the UK. The contract was negotiated and executed in the UK. The aircraft were to be built in the UK and the agreed place of delivery was Southend, UK. Both parties knew that FF intended to take the aircraft to India for use in its business there. A dispute arose between the parties. FF withheld rent and TT sought to terminate the agreement and sue for damages. It applied for summary judgment against FF. FF's defence was that it had a claim against TT for misrepresentation as the aircraft were defective and unsuitable for use in its business (contrary to what TT had represented). TT's response was that the contract contained an exclusion of TT's liability for misrepresentation and that, given that the contract was an international supply contract, it could rely on the exclusion without needing to show that it was reasonable. The dispute moved from the High Court to the Court of Appeal. The Court of Appeal was asked to consider two questions:

(1) In principle, does section 26 apply to exclusions or limitations of liability for misrepresentation in an international supply contract or only to exclusions/limitations of liability for breach of contract?

(2) Was the contract between TT and FF an international supply contract?

In relation to the first question, FF relied on the wording of 26(1) as supporting its argument that s26 applied only to exclusions/limitations of liability for breach of contract. It argued that "*The limits imposed by this Act*"" referred to limits imposed by UCTA on the extent to which liability could be excluded or limited by a contract term. However, the extent to which liability for misrepresentation could be excluded/limited was imposed by the Misrepresentation Act and not by UCTA. It also argued that the wording in 26(1) "*do not apply to liability arising under such a contract*" excluded misrepresentation from the scope of s26 as misrepresentation was not a liability arising under a contract. It was a liability arising pre-contractually.

Decision

In relation to the first question, the Court of Appeal held that 26(1) and (2) read together were clearly intended to refer to contractual exclusions/limitations in general including those for both breach of contract and misrepresentation. This interpretation was supported by the policy behind section 26, which was to take all exclusions / limitations in international supply contracts outside the scope of UCTA.

In relation to the second question, the Court of Appeal held that the contract between TT and FF satisfied both conditions in 26(3). The contract was one under which possession of goods passed and was made between parties each of which was based in a different country. That left the question of whether one of the conditions in s26(4) was satisfied. The Court rejected conditions (b) and (c) and focused on (a). It held that this condition would be satisfied where, at the time when the contract was made, the goods were in the course of carriage between different countries or where, at the time the contract was made, the parties contemplated that the goods would be taken from one country to another. It was not necessary for there to be a contractual obligation for the goods to be taken to another country. It was enough that the parties merely contemplated that this would happen. Both TT and FF knew at the time when they entered into the contract that the aircraft were to be taken to India. This was enough to fulfil condition (a). The agreement was an international supply contract. FF's argument failed and TT succeeded in obtaining summary judgment.

Comment

This decision is of interest because there are few judicial interpretations of s26 UCTA. In this case, the Court of Appeal chose to interpret 26(4)(a) widely, leaving scope for a greater number of contracts to benefit from s26. The case is also a useful reminder to consider whether an agreement is an international supply contract and whether you are able to incorporate wider exclusions or limitations or liability than would usually be enforceable under UCTA.

Further reading

Click here for a copy of the judgment

Court of Appeal guidance on when an agent will be a commercial agent

In the case of *Sagal (trading as Bunz UK) v Atelier Bunz GmbH* the Court of Appeal was asked to interpret the definition of 'commercial agent' in the Commercial Agents (Council Directive) Regulations 1993 (the Regulations).

Background

Article 2(1) of the Regulations defines a commercial agent 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".*

Facts

Sagal and Atelier agreed that Sagal would be Atelier's sole agent in the UK for the sale of Atelier's platinum jewellery. Sagal began trading as Bunz UK. Business was done in the following way:

Atelier:

- Supplied sample jewellery;
- Insured the sample jewellery and jewellery orders until they were safely delivered to the customer;
- Dealt with all returns and repairs; and
- Supplied marketing and promotional material for Bunz UK to use.

Sagal:

- Obtained orders from customers and provided a confirmation of purchase in its own name;
- Faxed orders through to Atelier. Sagal itself did not hold any stock;
- Invoiced the customers and was free to charge a mark up on the prices;
- Supplied customers with standard terms and conditions that regulated the contract between the customer and "the Company". Both the High Court and the Court of Appeal accepted the evidence that "Company" in the terms and conditions referred to Bunz UK.

A dispute arose between the parties and it was necessary to decide whether Sagal was a commercial agent within Article 2(1) of the Regulations (this would be relevant to the payment of compensation on termination of the agency). The question went to the Court of Appeal.

Decision

The Court of Appeal referred to the second limb of the definition of commercial agent in Article 2(1). It said that agents with authority to contract (as opposed to agents with authority only to negotiate) are only commercial agents falling with the scope of Article 2(1) if they have authority to contract (and do contract) in the name of the principal and on his behalf. The name of the principal needs to be on the face of the contract with the customer. A trader would not be a commercial agent within Article 2(1) where he contracted in his own name and on his own behalf.

Here, the standard terms and conditions demonstrated that Sagal was contracting in his own name with customers. He was not, therefore, a commercial agent within the Regulations.

The Court of Appeal also said that the documentation will be key in indicating whether an agent is a commercial agent. It would consider only the documentation and if this was decisive other inconsistent evidence would be ignored. The Court of Appeal said, by way of example, that an agent's ability to charge a mark up on sales would generally be inconsistent with that agent being a commercial agent. However, if the relevant documentation suggested that he was, then the documentation would prevail.

Comment

This decision is helpful in clarifying what factors the court will take into account in determining whether an agent is a commercial agent and appears to be pro-business in focusing on the form rather than the substance of a trading relationship. It emphasises that the documentation will play a very important role in determining whether a commercial agency exists.

Further reading

Click here for a copy of the judgment

Liability for failure to notify customer of departure of employee

In the case of *Fitzroy Robinson Limited v Mentmore Towers Limited*, the High Court considered whether a service provider would be liable for failure to inform its client of an employee's inability to continue to take a key role in the provision of that service.

Facts

Fitzroy Robinson Limited (FRL) were architects. Mentmore Towers (MT) was their client. FRL was engaged to act as architects in connection with a scheme to develop various properties for MT. The key member of FRL's team was Jeremy Blake, a director who put together the two FRL bid documents and was involved in all the pre-contractual meetings with MT. MT was told that Mr Blake would be the team leader throughout the project on behalf of FRL. Prior to the contracts being signed, Mr Blake resigned. FRL did not tell MT about the resignation as it feared that MT would pull out of the project. The contract for the work was signed. FRL subsequently told MT about Mr Blake's resignation. MT brought proceedings against FRL for breach of contract and negligent and fraudulent misrepresentation in respect of FRL's failure to inform them of Mr Blake's resignation.

Decision

The High Court held that FRL were in breach of contract and had made a fraudulent misrepresentation by deliberately withholding information about Mr Blake's resignation from MT.

Comment

This case was decided on its facts but a general practical point does emerge from this case. Businesses should be aware that if one of their employees is key to a project they should keep their client appraised of any changes in that employee's ability to act in that capacity. Otherwise they could find themselves liable for breach of contract and (depending on the timing of the resignation) misrepresentation.

Further Reading

Click here for a copy of the judgment

No contract by email despite previous course of dealings

In the case of *University of Plymouth v European Language Center Limited*, the Court of Appeal was called on to consider whether the parties had concluded a contract by email.

Facts

European Language Center (ELC) ran English language courses. The University provided them with accommodation for this purpose. The parties had worked together this way for some years. Each year they would enter into a new contract for the accommodation that was to be provided in that year. The contract was always reduced to writing and signed by both parties.

In May 2005, the University sent an email to ELC saying that it was able to provide accommodation for 200 students that year. Several weeks later, it sent an email to ELC saying that, in fact, it was only able to offer accommodation for 100 students. ELC subsequently argued that the first email was a binding offer which it had accepted during a telephone conversation with the University. It was clear that the telephone call had happened but there was no documentary evidence of the contents of that call. ELC argued that this had formed a binding contract with the University and the University was bound to provide accommodation for 200 students.

Decision

On the facts of the case, the Court of Appeal held that the email of May 2005 was not an offer but formed merely part of the preliminary negotiations between the parties. This conclusion was supported by the fact that the parties had always reduced their contracts to writing in the past and did not consider themselves bound contractually until this had been done. The court held that there was no intention on the part of the University to create legal relations by its May email. Even if the email had been an offer, there was no evidence that ELC had unequivocally accepted it.

Comment

Although the case was decided on its facts, it is a useful reminder of the pitfalls of relying on informal telephone and email exchanges to establish a binding contract. To avoid the problems that arose in this case, it is always advisable to confirm important telephone calls in writing or by email. Contracts should, where possible, be reduced to writing and signed by both parties. If email is to be used as a means of contracting, it should be made clear whether a particular email is intended to constitute an offer or an acceptance of an offer. To avoid the possibility of being contractually bound by merely informal email exchanges, it should be made clear that emails are not intended to create legal relations and this can be done by using the phrase 'subject to contract' in the body of the email.

Further Reading

Click here for a copy of the judgment

INTELLECTUAL PROPERTY

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HMRC takes a new approach to infringing goods

Following a policy change by HM Revenue & Customs (HMRC), IP rights holders will now be required to go to court every time they want the customs authorities to seize counterfeit goods entering the UK.

Using powers in the Counterfeit Goods Regulations (*1383/2003/EC*) (the Regulation), HMRC may detain and ultimately permanently seize goods entering the UK suspected of infringing an intellectual property right. Prior to the policy change, HMRC would detain goods arriving in the UK suspected of infringing an intellectual property right. HMRC would notify the IPR owner of the detention. HMRC would go on to permanently seize the goods provided the IPR owner gave a witness statement confirming that the goods were in fact infringing its intellectual property rights.

Since June of this year, HMRC have implemented a new policy on detention and seizure of goods. Now, HMRC will detain goods which are suspected of infringing intellectual property rights and notify the intellectual property rights owner of the detention, as before. An IPR owner then has 10 days in which to issue proceedings to establish whether its intellectual property rights have been infringed. HMRC will only permanently seize the goods if it has a court order permitting it to do so. If the IPR owner does not issue proceedings within 10 days or otherwise reach an agreement with the owner of the goods to abandon them, then the goods will be released to their owner.

This policy change has been made as a result of a successful legal challenge to HMRC's detention and seizure policy. It was found that seizing goods on the strength of witness statement alone did not meet the precise requirements of the Regulation. To bring the procedures fully in line with the Regulation, the onus is now on the IPR owner to prove that the goods infringe its intellectual property right.

The implications of this change are yet to be seen. It is likely to result in increased costs for IPR owners and may result in higher numbers of counterfeit goods entering the UK market. Counterfeiters will no doubt quickly become aware that if the IPR owner does not commence legal proceedings within 10 days the goods will be released to them. The solution for brandowners is to put in place a process to quickly and cost effectively identify fake goods and issue proceedings.

Click here for a copy of the Counterfeit Goods Regulation

High Court ruling on meaning of 'counterfeit goods'

In the case of *Nokia Corporation v Her Majesty's Commissioners of Revenue & Customs* (HMRC) the High Court has considered the extent to which brandowners can use the Counterfeit Goods Regulations (the Regulations) to seize counterfeit goods merely passing through the UK and not intended for sale here.

Background

The Regulations give customs authorities in the UK power to detain and ultimately seize goods which infringe an intellectual property right. 'Goods infringing an intellectual property right' include 'counterfeit goods' which are defined as "*goods, including packaging, bearing without authorisation a trade mark identical to the trade mark* *validly registered in respect of the same type of goods … and which thereby infringes the trade mark holder's right under Community law … or the law of the Member State in which the application for action by the customs authorities is made.*"

Article 5 of the Trade Marks Directive provides for the rights conferred by a trade mark. The proprietor of a trade mark is entitled to prevent all third parties not having his consent from using in the course of trade an identical sign for identical goods or a similar sign for identical or similar goods where there is a likelihood of confusion between the sign and the trade mark. The Trade Marks Directive was implemented in the UK by the Trade Marks Act 1994.

Facts

HMRC stopped and inspected a consignment at Heathrow Airport being shipped from Hong Kong to Columbia. The consignment comprised 400 mobile telephone handsets, batteries, manuals, boxes and hands-free kits each of which bore NOKIA trade marks. Nokia subsequently verified that the telephones were fakes and asked HMRC to seize the goods under the Regulation. HMRC declined to seize the goods on the basis that it did not have the legal power to do so without any evidence that the goods would be released onto the EU market.

Nokia applied for judicial review of:

- The decision not to seize / detain the goods;
- The policy followed by HMRC whereby goods in transit through the EU being sent from one non-EU country to another non-EU country were not considered to fall within the definition of 'counterfeit goods' under the Regulation.

HMRC argued that to fall within the definition of 'counterfeit goods' in the Regulation, the goods must infringe a trade mark in the UK. For there to be trade mark infringement in the UK the mark in question must be being used in the course of trade. This entailed the goods being put on the market in the UK and this had not and would not happen here.

Nokia claimed that the Regulation gave IPR owners powers to prevent counterfeit goods getting into circulation. By failing to recognise this, HMRC had applied an unduly restrictive interpretation of the Regulation.

Decision

The court rejected Nokia's application for judicial review. It accepted that HMRC's arguments were correct. It held that the Regulation did not create any new rights. The Regulation focused on whether the goods were counterfeit. If they were, then HMRC had authority to take action. For goods to be counterfeit there must be trade mark infringement and trade mark infringement required the goods were put on the market in the UK. Goods merely passing through the UK in transit never to be put on the market here cannot satisfy this requirement. It is not enough that there is a risk that the goods may end up on the UK market.

Comment

This is a disappointing decision for brandowners. It confirms that the Regulation cannot be used to seize counterfeit goods that are merely passing through the UK but which will not be put on the market here. The Regulation cannot be used therefore as a means of intercepting fake goods and prohibiting their sale in the destination territory. The High Court noted that this interpretation of the Regulation was unsatisfactory and expressed a hope that there will be a review of the measures currently available to prevent the international trade in counterfeit goods.

Further reading

Click here for a copy of the judgment

ECJ extends Community-wide customs rights to holders of international trade marks

In the case of *Zino Davidoff SA v Bundesfinanzdirektion Sudost*, the ECJ has ruled that the proprietor of an international trade mark protected under the Madrid Protocol has the same rights under the Counterfeit Goods Regulation (the Regulation) as the proprietor of a Community Trade Mark to secure action against infringing goods by the customs authorities of a number of EU member states.

Background

Article 5(1) of the Regulation states that an IPR owner may make an application for customs authorities to take action to detain goods suspecting of infringing their Intellectual property rights. Article 5(4) states that the holder of a Community Trade Mark (CTM) may request that action be taken not only by the customs authorities in the member state in which the application is lodged but also by customs authorities in other EU Member States.

Decision

In this case, a lower court had previously held that only the owner of a CTM was able to take Community-wide action under Article 5(4) of the Regulation. The ECJ ruled, however, that an international mark designating the EC was to be treated as it if was a CTM for the purpose of the Regulation. Therefore, Article 5(4) of the Regulation extended to the owner of an international trade mark.

Comment

This decision essentially establishes wider rights for the owners of international trade marks than previously envisaged and will be welcomed by them as strengthening their ability to protect their brands.

Further reading

Click here for a copy of the judgment

Delay not fatal to copyright royalty claim

A dispute over the ownership of copyright in Procul Harum's "A Whiter Shade of Pale" has been ruled upon by the House of Lords (HoL).

Background

In 2006, the High Court decided that the appellant (A), Matthew Fisher who was the group's organist was entitled to 40% of the copyright in the track. However, this decision was subsequently overturned by the Court of Appeal (CoA), because A had taken 30 years to bring his claim. The CoA ruled that the copyright was owned by the group's frontman, Gary Brooker and lyricist, Keith Reed.

Decision

Crucially, the HoL decided that the passage of time is not enough to undermine claims such as A's especially as the delay had not caused harm to other writers. If anything, the HoL found that A's long delay in asserting his rights had been of considerable financial benefit to the respondents, effectively outweighing any potential disadvantage to them.

The HoL ruled that A was partially responsible for writing the keyboard melody featuring in the song and as such is entitled to share in its future royalties.

Comment

This case emphasises the willingness of the Courts to acknowledge and uphold the rights of copyright owners. Even where a third party has been benefiting from copyright material for some time, there is still the risk that the copyright owner may choose to assert their rights, and on the basis of this case, they may well be successful.

Further reading

Click here for a copy of the judgment

E-COMMERCE

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Google not liable as publisher of defamatory statements

In the case of *Metropolitan International Schools Limited (t/a Train2Game) v (1) Designtechnica Corporation (t/a Digital Trends) (2) Google UK Limited (3) Google Inc*, the High Court has ruled on the extent to which Google could be regarded as a 'publisher' for the purposes of a defamation action.

Facts

Train2Game ran distance learning courses for adults in the design and development of computer games. Until 2004, it had traded under the name 'Scheidegger'. Designtechnica hosted a website at digitaltrends.com on which anyone could post reviews of products and services. The dispute centred around a discussion thread on this website begun on the 25 March 2009 by a user with the username richardW under the title 'Train2Game new SCAM for Scheidegger'. The discussion grew to 146 postings, the essence of which was that the courses run by Train2Game were poor quality and overpriced. Train2Game issued defamation proceedings against Designtechnica in respect of these postings on its site. It also commenced proceedings against Google claiming that it was a publisher of the defamatory postings. The court accepted Google UK's evidence that it was Google Inc that operated the search engine at google.co.uk. and so Google UK dropped out of the picture. The claim against Google Inc centred on the fact that, since 25 March 2009, if Train2Game was entered as a search term into Google's search engine the phrase 'Train2Game new SCAM for Scheidegger' would appear in the third or fourth ranked search result. The question for the High Court was whether this amounted to publication for the purposes of a defamation claim.

Decision

The High Court held that Google Inc was not a publisher. It accepted the evidence that the Google search engine was entirely automated with no human input involved and that Google had no control over the search terms entered by users. A publisher for the purposes of a defamation claim had to have some knowing involvement in the publication of the words complained of. It was not enough that they played a merely passive instrumental role in the dissemination of the words. Google did not have the required 'mental element' to be a publisher. It could not sensibly be said that it had authorised or caused the words to appear on the user's screen. Google merely facilitated the dissemination and that was not enough.

Google's liability did not change once it had been informed by Train2Game that defamatory statements were appearing in its search results. Google was very different from a website owner which would be liable for defamatory content on its site once it had been told about it. An owner had the power to take down material from its site relatively easily. Google had no means of 'taking down' material appearing in its search results. If Google blocked the words complained of, that would have the effect of blocking other lawful material that might contain some of the same words. This would have implications under Article 10 ECHR.

The High Court stressed that Train2Game's remedy in this situation was against Designtechnica and not against Google.

Comment

This decision is an important one in the sense that there was no previous judicial authority specifically concerning the liability of search engines for defamatory content appearing in search results. In a wider commercial context, the decision is useful in emphasising that an individual or organisation looking to protect its online reputation should take action against a website owner or host under the *Godfrey v Demon* principles.

Further reading

Click here for a copy of the judgment

DATA PROTECTION

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Information Commissioner to be able to issue fines from April 2010

The Information Commissioner's Office (ICO) has announced that its new powers to fine businesses for serious breaches of the Data Protection Act will take effect on 1 April 2010.

Unlike other EU data protection regulators and UK sectoral regulators such as the Financial Services Authority, the Information Commissioner cannot currently issue fines for breaches of the DPA but may seek to regulate future behaviour by the use of enforcement notices. The powers to issue direct fines were originally introduced in the Criminal Justice and Immigration Act 2008 but have not yet been brought into force.

Assuming the announcement from the ICO is accurate, the ability to issue fines will be a significant extension of the ICO's enforcement powers.

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