Hammonds

COMMERCIAL AND INTELLECTUAL PROPERTY LAW BULLETIN

April/May 2010

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Commercial Intellectual Property E-Commerce

This month's bulletin includes a look at:

- the Court of Appeal's landmark ruling on comparative advertising;
- the High Court's ruling that an online service provider was liable for copyright infringement; and
- the European Court's latest opinion on the availability of privilege for communications between in house lawyers and their employers.

COMMERCIAL

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High Court confirms no new remoteness test for damages in contract

In *Sylvia Shipping Co Limited v Progress Bulk Carriers Limited* the High Court has confirmed that the House of Lords' decision in *Transfield Shipping Inc v Mercator Shipping Inc* does not create a new remoteness test for damages in contract.

Background

The law on remoteness of damages is based on the judgments in *Hadley v Baxendale* and *The Heron II*. The generally accepted test for remoteness has been whether the loss claimed is of a kind or type which it would have been within the reasonable contemplation of the parties at the time that the contract was made as being not unlikely to result.

The case of *Transfield Shipping Inc v Mercator Shipping Inc* [2008] (also known as "*The Achilleas*") called into question whether that was the correct test. In this case, a time chartered vessel (The Achilleas) was delayed during a final voyage and, in breach of contract, was redelivered to the owners late. The owners had already agreed a follow on charter with a third party and, because of the late delivery, they were forced to renegotiate the rate of hire to a substantially reduced rate. The owners sued for breach of contract claiming damages for the difference between the original and renegotiated hire rates for the entire duration of the follow on charter (up to 6 months).

The House of Lords (as it then was) held that the owner's damages were limited to the difference between the market rate of hire and the rate agreed in the contract which was breached for the period during which the owners were deprived of the vessel by late redelivery.

The majority in the House of Lords took a new approach to remoteness of damages, by introducing an 'assumption of responsibility for the loss' element to the *Hadley v Baxendale* test. The remoteness test applied was whether the parties had the type of loss within their contemplation when the contract was made and also whether they had liability for this type of loss within their contemplation then. In other words, was the charterer to be taken to have undertaken legal responsibility for this type of loss?

Lord Hoffman said that the 'standard' *Hadley v Baxendale* test would be applicable in the "*great majority of cases*" but that it would not be sufficient in cases "*in which the context, surrounding circumstances or general understanding in the relevant market shows that a party would not reasonably have been regarded as assuming responsibility for such losses*".

Applying the new test in this case, the House of Lords held that although the loss of profits on the charter were foreseeable, the general understanding in the shipping market was that liability was restricted to the difference between the market rate and the charter rate for the overrun period. The charterer had, therefore, only assumed liability for these losses and the House of Lords awarded damages accordingly.

Since this case there has been some uncertainty as to whether the correct remoteness test is the 'orthodox' test in *Hadley v Baxendale* or the 'assumption of responsibility' test.

Facts

Sylvia Shipping (Sylvia) chartered a vessel to Progress Bulk Carriers (Progress). Progress sub-chartered the ship to Conagra Trade Group. In breach of contract, Sylvia failed to maintain parts of the ship. This meant that it was not ready to be delivered to Conagra on time. Progress claimed against Sylvia for loss of profit on the cancelled sub-charter. The Arbitral Tribunal made an award in favour of Progress. Sylvia appealed and the issue to be determined by the High Court was whether the Tribunal had applied the correct remoteness test. Sylvia argued that the test in *The Achilles* should apply whereas the Tribunal had applied the orthodox test in *Hadley v Baxendale.*

Decision

Mr Justice Hamblin in the High Court held that the Tribunal had applied the correct test. He held that "*there is no new generally applicable legal test of remoteness of damages*". He said:

"*The orthodox approach remains the general test of remoteness applicable in the great majority of cases. However, there may be "unusual" cases, such as The Achilleas itself, in which the context, surrounding circumstances or general understanding in the relevant market make it necessary specifically to consider whether there has been an assumption of responsibility. This is most likely to be in those relatively rare cases where the application of the general test leads or may lead to an unquantifiable, unpredictable, uncontrollable or disproportionate liability or where there is clear evidence that such a liability would be contrary to market understanding and expectations. In the great majority of cases it will not be necessary specifically to address the issue of assumption of responsibility. Usually the fact that the type of loss arises in the ordinary course of things or out of special known circumstances will carry with it the necessary assumption of responsibility*."

This case was not an 'unusual' case as there was no general market understanding about what the measure of damages should be and the liability of the owners was not likely to be unquantifiable, unpredictable, uncontrollable or disproportionate. The assumption of responsibility test was not applicable. Applying the *Hadley v Baxendale* test the loss of profits on the sub-charter were foreseeable and so recoverable by the charterer.

Comment

This decision confirms that the *Hadley v Baxendale* test remains the standard rule of remoteness and it is only in relatively unusual cases where a consideration of assumption of responsibility may be required.

Further reading

Click here to read the judgment

Leave to appeal granted in Enviroco case

The Supreme Court has granted Enviroco leave to appeal the Court of Appeal's decision in *Enviroco Ltd v Farstad Supply A/S*.

In this case, the Court of Appeal held that where a parent company provided shares in its subsidiary as security for a loan and the shares were registered in the name of the lender, the subsidiary would no longer be a 'subsidiary' within the meaning of sections 736 and 736A of the Companies Act 1985 (now section 1159 Companies Act 2006). We reported on this case in the January edition of this Bulletin. Click here to read that report.

The decision is relevant to those drafting commercial agreements and defining "subsidiary" and "holding company" by reference to the statutory definitions. Without a close analysis of the factual position, this could result in a group company unintentionally falling outside the scope of an agreement.

The hearing before the Supreme Court will take on 20 and 21 October 2010 and we will report on the outcome then.

Click here to read the Court of Appeal's judgment

Market practice is admissible as aid to construction of contracts

In *Thomas Crema v Cenkos Securities plc*, the High Court has held that the courts will take into account market practice as part of the factual background against which it will construe a contract.

Background

When construing a contract, the courts place an objective interpretation on the words which the parties have used, but say that they are giving effect to the intention of the parties. The courts will take into account all of the background information that was available to the parties at the time that the contract was made. Ambiguities may be resolved by reference to 'custom' in the particular market concerned but only where that custom is reasonable, well established and so well known in the market as to have the status of an implied term. Mere trade practice is insufficient.

Facts

Mr Crema (C) was an investment banker. Cenkos was a stockbroker. C was engaged as a sub-broker by Cenkos in connection with fundraising for Green Park Ventures Limited (GPV). GPV raised £20 million. C argued that he was instrumental in raising £18m of this and that he was entitled to be paid an agreed fee of 70% of 7% of the £18m, amounting to £882,000. The agreement with Cenkos provided:

"Your introduction fee for raising the funds is as follows:

A one off payment of £882,000, this is based on 70% of the final commission of 7% of the final commission raised.

Cenkos argued that C was only entitled to be paid out of the brokerage already received. That is, that it was general market practice in the City of London that, just as a broker would only be paid on receipt of funds from investors in a fund raising, a lead broker would only satisfy the claims of a sub-broker once the lead broker's fees had been paid. Cenkos did not receive any payment from GPV because GPV became insolvent and therefore C was not entitled to any payment either.

The judge was asked to consider whether City practice in relation to payment of sub-brokers meant that C was entitled to be paid his fee regardless of whether Cenkos had received its fee. The issue was whether this general market practice was admissible as evidence of the factual background against which the court should construe the contract.

C argued that this mere market practice was inadmissible as it fell short of an established custom.

Held

The High Court held that it would take this market practice into account when construing the agreement between the parties even though it was not an established custom. This decision appears to extend the law on the admissibility of evidence of market practice when a court is asked to construe a contract.

Further reading

Click here for a copy of the judgment

Court interprets Lugano Convention in dispute over jurisdiction

Future Investments SA v Federation Internationale de Football Association (FIFA) is a useful example of how the courts will apply the Lugano Convention in deciding whether they have jurisdiction over a dispute.

Background

The basic principle in the Lugano Convention is that a defendant is entitled to be sued in the courts of the state in which he/she is domiciled. Article 5(3) of the Convention provides an exception to this general rule for tortious claims. Here, the claimant can sue "in the courts for the place where the harmful event occurred". This means both:

- the courts of the place where the damage occurred; and
- the courts of the place where the event which gives rise to the damage occurred.

Where these two places are not the same, the claimant has the option of suing in either court.

Facts

The dispute concerned the rights to produce and exploit home videos/DVDs of the 1998 World Cup. Future acquired the exclusive rights via a chain of agreements in 1987 from FIFI to OTI and from OTI to Future. Each of these agreements was signed in Switzerland and was subject to Swiss law.

In 2004, FIFA licensed IMG Media Limited to sell the DVD 'FIFA Fever' which contained footage of the 1998 World Cup. In the agreement, FIFA warranted that had the right to grant these rights to IMG (which of course, it did not as Future owned the rights). The agreement was signed in Switzerland.

Future brought proceedings in the English High Court against FIFA for the tort of causing harm by unlawful means. The court had to decide whether it had jurisdiction over the dispute under Article 5(3) of the Lugano Convention. FIFA argued that it did not.

Decision

Mr Justice Floyd held that the English courts did not have jurisdiction over the dispute and that proceedings should have been commenced in Switzerland. Applying Article 5(3), he held that the event giving rise to the damage was when FIFA signed the agreement with IMG and this occurred in Switzerland. The effect of this event (the damage)

was to interfere with IMG's freedom to deal with Future in that the existence of the warranty in the agreement meant that IMG believed that they did not need to apply to Future for a licence. This damage occurred where the licence between Future and IMG would otherwise have been made and the court was persuaded on the evidence that this would have been Switzerland. The court declined jurisdiction.

Further reading

Click here for a copy of the judgment

Advocate General confirms that legal professional privilege does not extend to in house advice

The Advocate General has confirmed that legal professional privilege does not protect communications between in house lawyers and their employers in EU competition investigations.

Background

The EU law principles relating to legal professional privilege were developed by the European Court of Justice (ECJ) in the *AM&S* case. The ECJ held that privilege for written communications between lawyers and clients only applied if the following conditions were met:

- The communications in question were made for the purposes and in the interests of the client's rights of defence.
- The communications must be with an independent lawyer, that is, someone not bound to the client by a relationship of employment.

The second condition precluded legal professional privilege applying to communications between in house lawyers and their client employers.

Facts

The case concerned Akzo Nobel Chemicals Limited and Akcros Chemicals Limited. The European Commission began an investigation into an alleged cartel in the plastic additives market. It raided the UK premises of Akzo and Akcros. The companies objected to the Commission taking two particular sets of documents arguing that they were covered by legal professional privilege. Two of the documents were emails exchanged between Akcro's general manager and Akzo's in house lawyer. The Commission kept these emails in a sealed envelope and the court was asked to determine whether they were covered by legal professional privilege. The Commission's investigation continued in the meantime and it eventually fined 24 plastics additives producers a total of €173,860,400. Akcros Chemicals Limited was amongst the companies fined, as were several companies in the Akzo Nobel Group although not Akzo Nobel Chemicals Limited. The Commission did not rely on the disputed emails in imposing the fines.

The question of legal professional privilege was referred to the Court of Justice of the European Union (CJEU).

Decision

The Advocate General gave her preliminary opinion to guide the CJEU in reaching its decision. She said that legal professional privilege did not extend to communications between in house lawyers and their client employers for the purpose of EU competition investigations.

Her reasoning was that in house lawyers were not independent lawyers as required by the second condition in *AM&S* because they were in a relationship of employment with the client. They were economically dependent on their employer and had a stronger personal identification with them. In addition, there was a danger that an in house lawyer would encounter conflicts of interest between their professional obligations and the aims and wishes of his/her employer. This would make it more difficult to effectively oppose any abuses of legal professional privilege.

> *"Such abuse may for example consist in handing over evidence and information to an undertaking's legal department under cover of a request for legal advice, for the sole or primary purpose of preventing the competition authorities from gaining access to the evidence or information. At worst the functional departments of an undertaking may be tempted to misuse the company's internal legal department as a place for storing illegal documents such as cartel agreements and records of meeting between parties to those cartels.."*

It made no difference that in house lawyers were members of national professional bodies, as this did not guarantee any independence from their employers. Neither did it make any difference that the Regulation modernising European competition proceedings (1/2003) created a greater need for internal legal advice to prevent competition breaches and put in place compliance programmes. This was not a reason to extend legal professional privilege to this advice.

The Advocate General also felt that the fact that legal professional privilege did not extend to communications with in house lawyers in EU competition proceedings but did cover these communications in some national competition investigations did not lead to unnecessary uncertainty or make it less attractive to seek legal advice in house. She believed that if the existing rule in *AM&S* was to be changed that would have to be done using legislation.

The Advocate General's view was also that the existing rule did not breach the principle of equality between in house and independent lawyers (because in her view the two were actually different) or make it excessively difficult for in house lawyers to do their job.

Comment

At this stage, this is just an opinion on the law. The CJEU is not bound by it but does tend to follow these opinions in most cases. The CJEU's judgment will follow in a few months.

Further reading

Click here to read the opinion

Software supplier's limitation of liability unreasonable

In *Kingsway Hall Hotel Ltd v Red Sky IT (Hounslow) Ltd,* the High Court has held that a software company could not rely on its limitation of liability because of the manner in which it had sold its products.

Facts

Kingsway Hall Hotel (Kingsway) purchased new off-the-shelf hotel management software from Red Sky. The software was to manage advance reservations of rooms, the checking in and out of guests and billing. Kingsway was given a demonstration of the software at the premises of another of Red Sky's customer, the East India Club which was a private members club with rooms.

Kingsway contracted with Red Sky on Red Sky's standard terms and conditions. These included:

- Clause 10.1 – which excluded all terms as to performance, quality, fitness for purpose etc except as provided in clause 10.2.

- Clause 10.2 - which contained an express warranty that "the programmes will in all material respects provide the facilities and functions set out in the Operating Documents. Operating Documents were defined to include any operating documents supplied by Red Sky to Kingsway. Red Sky never supplied any manuals or other operating documents to Kingsway.

- Clause 10.4 – which provided that Kingsway's sole remedy for breach of the warranty in clause 10.2 was to make use of Red Sky's maintenance and support functions.

- Clause 10.7 – which provided that clause 10, together with clause 18, stated the entire liability of Red Sky in respect of any fault or error in the IT system.

- Clause 18.3.2 excluded liability for any indirect or consequential loss. The term expressly excluded loss of profits and similar losses.

- Clause 18.3.3 limited liability for direct loss to four times the contract price.

Kingsway soon experienced problems with the software. In particular, the software did not accurately manage room occupancy resulting in rooms left unsold or angry customers when too many bookings were taken. Eventually, it bought replacement software and sued Red Sky for lost business and additional staff costs. Red Sky sought to rely on clauses 10 and 18 to limit its liability.

Decision

Red Sky could not rely on clauses 10 and 18 as these clauses did not satisfy the reasonableness test in UCTA. The effect of these clauses was to transfer the risk of selecting the right software onto the customer, here Kingsway. Red Sky's standard terms and conditions were predicated on the basis that Kingsway would satisfy itself as to the suitability of the software based on the demonstrations and the operating documents. However, no operating documents were supplied. The demonstrations were incomparable in that they were given in a context different from that in which Kingsway intended to use the software and so were of limited assistance in informing Kingsway about the potential problems and limitations of it. Without manuals or adequate demonstrations Kingsway was not in a position to decide whether the software was suitable for its needs. The judge found that Kingsway had, in fact, been induced to buy the software as a result of Red Sky's advice that it was suitable for them. In those circumstances, clauses 10 and 18 were not reasonable and Red Sky could not rely on them. The judge awarded Kingsway damages which included loss of profit and which exceeded the 'four times the price' contractual cap.

Comment

Following this case, suppliers should review their standard terms and conditions. If they push the risk of choosing the right software onto the customer then they must ensure that the customer is given all of the information that the contract says will be supplied in order to help them assess the product and make an informed choice. It is also necessary to ensure that the software is demonstrated in an environment appropriate to the customer in circumstances comparable to those in which the customer will actually use the software. Failing to do this could mean loss of the protection of contractual limitations of liability.

Further reading

Click here for a copy of the judgment

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Consequences of non-payment of patent renewal fees

In *Betson Medical (Ireland) Limited v Comptroller General of Patents* the High Court has refused to restore a patent that had lapsed following the proprietor's failure to pay the renewal fee within the requisite time period due to financial difficulties.

Background

A patent must be renewed on each anniversary of the filing date. For UK patents, the requirement to pay a renewal fee starts on the fourth anniversary of the filling date. If the deadline for payment of the renewal fee is missed, the proprietor has up to six months within which to pay it, together with a late payment fee. If the renewal fee is not paid within this time period, the patent will lapse. The proprietor then has 13 months in which to apply for the patent to be restored. The patent will be restored if the Patent Office is satisfied that the proprietor took reasonable care to see that any renewal fee was paid within the prescribed period.

Facts

Mr Betson had filed his European patent application on 6 December 1996. In October 1999, the patent application was assigned to his company, Betson Medical. The renewal fee in respect of the eighth year of the patent fell due on 6th December 2003. Mr Betson had a total of 17 patents in his portfolio due for renewal on this date (including the patent in question). The renewal fee was not paid by this date, nor within the six month grace period (ending on 6 June 2004) and the patent lapsed. Betson Medical applied for restoration of the patent.

The evidence showed that Mr Betson was aware of the date for payment of the renewal fee but was unable to pay due to a shortage of funds. At the time Mr Betson had been dependant on financial support from personal contacts to meet his day to day living expenses, such as utility bills. Neither Mr Betson nor Betson Medical had any funds with which to pay the renewal fees. During the six month grace period, Mr Betson had been actively seeking funds to pay the renewal fees for all seventeen patents in his portfolio. He was therefore seeking funds of €10,000 to cover all renewal fees for these seventeen patents plus €140,000 to allow him to exploit the invention. Although the total renewal fees for seventeen patents in the portfolio were in the region of €10,000, the renewal fee for the patent in question was only around €360.

Mr Betson eventually found an investor who made €150,000 available to Betson Medical in late June 2004 after expiry of the six month grace period. Mr Betson did not provide any evidence as to whether he had asked the eventual investor to provide the sum of €360 by late June 2004 in order to ensure renewal of the patent. Nor did Mr Betson provide any information as to whether he had asked his personal contacts for assistance in paying this relatively small fee.

Decision

The High Court refused to restore the patent. In considering whether Betson Medical/Mr Betson had taken reasonable care to see that the renewal fee was paid by the due date, the court was only concerned with the renewal fee with the patent and not with the patent portfolio as a whole.

The Judge accepted that Mr Betson was facing severe financial difficulties in the period leading up to 6 June 2004 and did make strenuous efforts to secure funding to pay the renewal fees for the whole patent portfolio and exploitation of the invention. However, the duty to take reasonable care to ensure the renewal fee was paid within the relevant time only related to the patent in question and not to the other sixteen patents making up the portfolio. The evidence did not show that Mr Betson had taken reasonable care to ensure the €360,000 needed to renew the patent was paid within the requisite time period. The Judge therefore refused to restore the patent.

Comment

This case highlights the need to ensure patent renewal fees are paid on time. Failure to do so will result in the patent lapsing. It can be difficult to show inability to pay due to financial difficulties and the Patent Office or Court will need to be satisfied that the inability to pay has not resulted from any lack of reasonable care. A proprietor in financial difficulties should seek financial assistance for each patent in his portfolio rather than for the patent portfolio as a whole. This may require a proprietor to focus on those patents of most importance.

Further reading

Click here for a copy of the judgment

Landmark Court of Appeal ruling in comparative advertising case

The Court of Appeal has given its judgment in *L'Oreal v Bellure & others*. This is an important ruling for brand owners concerning the legality of comparative advertising.

Background

Article 5(1)(a) of the Trade Marks Directive (TMD) says:

The proprietor [of a registered trade mark] shall be entitled to prevent all third parties not having his consent from using in the course of trade any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered.

Article 6(1)(b) of the Directive says:

The trade mark shall not entitle the proprietor to prohibit a third party from using in the course of trade indications concerning the kind, quality, quantity, intended purpose, value, geographical origin, the time of production of goods or of rendering of the service, or other characteristics of goods or services, provided he uses them in accordance with honest practices in industrial or commercial matters.

Article 3(a)1 of the Comparative Advertising Directive (CAD) sets out conditions which an advert must fulfil in order to be a lawful comparative advert. The two conditions relevant in this case were:

(g) it [the advert] does not take unfair advantage of the reputation of a trade mark, trade name or other distinguishing marks of a competitor or of the designation of origin of competing goods;

(h) it does not present goods or services as imitations or replicas of goods or services bearing a protected trade mark or trade name.

Facts

Bellure and two other companies, Malaika and Starion (B) sold three ranges of perfume called Stitch, Création Lamis and Dorrall. Each member of the range smelled like a famous, luxury branded perfume sold by L'Oreal (L) and known by a well-known registered trade mark. B provided retailers with comparison lists showing which of its products corresponded to which L'Oréal perfume. To do this, B used L's trade marks on the list. L alleged that B's use of comparison lists infringed its registered trade marks for those perfumes. Originally it also contended that some of the packaging used for the Création Lamis and Dorrall ranges infringed other registered trade marks although the parties subsequently settled that issue.

The Court of Appeal referred certain questions on the interpretation of the TMD and CAD to the ECJ. The ECJ gave its ruling in June last year – see our Bulletin report on this here.

In this latest judgment, the Court of Appeal is applying the ECJ's ruling on the law to the facts of the dispute. The Court of Appeal was asked to rule on:

(1) Did the use by B of L's trade marks in the comparison lists amount to trade mark infringement under Article 5(1)(a) TMD?

(2) Were the comparison lists lawful comparative adverts within CAD? In particular, did they satisfy the conditions in Article 3(a)1(g) and (h)? If so, then the use of L's trade marks would be in accordance with honest practices and so escape being trade mark infringement by virtue of Article 6(1)(b). If not, then the comparison lists would infringe L's trade marks.

Decision

Lord Justice Jacob gave the leading judgment, with which the other two judges (Wall LJ and Rimer LJ) agreed. Applying the ECJ's interpretation of the relevant law, he held:

(1) That the use by B of L's trade marks in the comparison lists amounted to trade mark infringement under Article 5(1)(a) TMD. B was using marks identical to L's trade marks in relation to identical goods. B's use was not for purely descriptive purposes but for advertising. This affected the "communication, investment or advertising function" of L's trade marks.

(2) That the comparison lists did not comply with conditions (g) and (h) in Article 3(a)(1) of CAD and so were not lawful comparative adverts. The ECJ had interpreted condition (h) widely and had ruled that B was presenting its perfumes as imitations of L's. The lists did not therefore comply with (h). Neither did they comply with (g) as the ECJ had ruled that failure to comply with (h) amounted to "taking unfair advantage" of a trade mark in breach of (g). This meant that the lists did not escape being trade mark infringement by virtue of Article 6(1)(b) TMD. The failure to comply with CAD meant that the use of L's trade marks in the comparison lists was "not in accordance with honest practices".

Throughout the judgment, Jacob LJ made it plain that he thought the ECJ's interpretation of the law was wrong, but that he had no choice but to follow it. He felt that law should "*not prevent traders from making honest statements about their products where those products are themselves lawful*" (i.e. not infringing third party IP rights). He said that the effect of the ECJ's ruling, and the outcome in this case, was to interfere with free trade and freedom of speech. On free trade, he said:

"*It is about freedom to trade – indeed, potentially in other cases, to compete honestly. If a trader cannot (when it is truly the case) say: "my goods are the same as Brand X (a famous registered mark) but half the price", I think there is a real danger that important areas of trade will not be open to proper competition. In my first judgment in this case I said:*

"It is not only smell-alike merchants who use comparison lists. One can think of many others who do the same sort of thing: a generic drug merchant for instance will need to tell his customers (and perhaps patients and doctors) that he is selling the generic (or perhaps his own brand) version of a drug well-known under a trade mark. For that purpose he will want and need to have a list of comparisons of well-known trade mark, generic name and (if any) his own brand name. And he will want to supply that list to his customers or at the very least use the information on it to say "this product is the generic version of X", X being the well-known brand. Or a dealer in print cartridges will maintain a list using the trade marks of the leading brands of printer, the various numbers used by those brands for cartridges for various models and his equivalent number – rather like the Stitch comparison lists here. Dealers in generic spare parts will maintain similar sorts of list. And so on.

It is important to accept and appreciate that in all these cases the merchant who uses such a list does so to promote his product. So there is a kind of "free riding". Although that expression has crept into European Trade Mark law it is, to me at least, subtly and dangerously emotive: it carries the unwritten message that it ought to be stopped. That is far from being necessarily so. The needs of proper competition and lawful free trade will involve an element at least of "free riding." The problem for trade mark law is where to draw the line between permissible and impermissible "free riding." It is also important to note here that there are different sorts of "free riding". There are cases of out-and-out counterfeiting. At the other extreme there are cases where, without deceiving or confusing anyone, the defendant is in competition with the trade mark owner and advertises fairly but comparatively."

I do not resile from any of that. I regret that the ECJ in this case has not addressed the competition aspects of what it calls "riding on the coattails". The trouble with deprecatory metaphorical expressions such as this ("free-riding" is another), containing as they do clear disapproval of the defendants' trade as such, is that they do not provide clear rules by which a trader can know clearly what he can and cannot do."

Jacob LJ also felt that the ECJ's ruling interfered with freedom of speech in that traders were prohibited from telling the truth about their products and consumers prevented from hearing this and making an informed choice about their purchases. He felt that in these circumstances the right to free speech should trump trade mark law. Consumers were the only losers.

"*Moreover there is no harm to the trade mark owner – other than possibly a "harm" which, to be fair, L'Oréal has never asserted. That "harm" would be letting the truth out – that it is possible to produce cheap perfumes which smell somewhat like a famous original. I can understand that a purveyor of a product sold at a very high price as an exclusive luxury item would not like the public to know that it can be imitated, albeit not to the same quality, cheaply – there is a bit of a message that the price of the real thing may be excessive and that the "luxury image" may be a bit of a delusion. But an uncomfortable (from the point of view of the trade mark owner) truth is still the truth: it surely needs a strong reason to suppress it.*"

Jacob LJ said that the consequence of the ECJ's decision was that the EU took a more protective approach to trade mark law than other major trading areas.

"*I have not of course studied in detail the laws of other countries, but my general understanding is, for instance, that countries with a healthy attitude to competition law, such as the US, would not keep a perfectly lawful product off the market by the use of trade mark law to suppress truthful advertising.*"

He added:

"*I would add that a touch of reality is called for here. Consumers are not stupid. They will not see the cheap copy as being the same in quality as the original. They will see it for what it is and no more.*"

Comment

Despite Jacob LJ's voicing of strong views that the ECJ had got it wrong, the ECJ's ruling is currently good law. Brand owners currently have wide powers to prevent their trade mark being used by competitors in comparative adverts where that use is for something other than purely descriptive purposes and may damage the "communication, investment or advertising function" of the mark. As Jacob indicated in this judgment, these concepts are vague and not defined and would seem to catch most uses of trade marks in comparative adverts. Brand owners would not need to show that consumers were confused about whose products were being advertised.

Further reading

Click here to read a copy of the judgment

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High Court finds online service provider liable for copyright infringement

In *Twentieth Century Fox Film Corporation & others v Newzbin Limited* the High Court has found an online indexing service provider liable for copyright infringement.

Facts

The Claimants were all well known makers and distributors of films. Newzbin Limited operated the website Newzbin. Newzbin was a Usenet indexing site. Usenet is an online bulletin board on which users can post, view and download messages. Newzbin would locate and pull all of those messages together indexing them into various categories. This made it easier for users to find the types of messages they were looking for.

Newzbin located and categorized both text and binary messages. Binary messages comprised copies of films, TV programmes etc. Newzbin would locate these messages and pull them into the 'Movies' category or 'TV' category as the case may be. A user looking for a particular film would then only need to look in the 'Movies' category to find it rather than having to trawl through the many thousands of messages on Usenet.

The issue in this case was that some of the binary messages contained unlawful copies of the claimants' (C) films which users could download. The High Court was asked to decide whether the role played by Newzbin in making these films available to users amounted to copyright infringement by Newzbin.

The following features of the Newzbin service were relevant to the decision reached by the High Court:

- Newzbin provided a search facility which enabled users to locate copies of films easily;
- One film would be split between many hundreds of binary messages. Newzbin provided a one-click facility which located all of those messages for the user in one go allowing them to download an entire film. This saved many hours of user time locating all of the necessary messages. This was known as the 'NZB' facility;
- Newzbin used people as 'editors'. The editors would gather together binary material, badge it consistently and make it easier for users to download. They would also create reports which would, for example, include URL's to film review sites or similar. Some of these editors were paid. D gave instructions to editors on how to create these reports. The instructions included the following statements:

"*While adding URLs is optional for non-new editors it's still good to include them and 'strongly encouraged' for movies. There is a list of helpful links elsewhere"; and*

"You're benefiting the entire community a LOT more by making movie posts and decoding the cryptic filenames people come up with."

The judge found that these and other instructions "*revealed an awareness by D [Newzbin] that users were primarily interested in films and constituted a positive encouragement and inducement to D's editors to focus on films in making their reports*".

- The Newzbin site was primarily set up to categorise binary rather than text content. The judge found that it had "*little utility in relation to text messages… and in this respect was a very rudimentary and crude system*". Also, users could adjust their settings to view either text or binary content. The default setting was binary view. Further, a statement on the Newzbin site said:

"*As mentioned in the brief description, Newzbin indexes the binary side of Usenet. We are a search engine – just like Google! ….*"; and

- Films could only be downloaded by 'premium members' of the Newzbin service. Premium members were required to pay a fee. Newzbin had 700,000 premium members.

The judge accepted the following evidence:

- That a significant proportion of the Newzbin database related to unlawful copies of commercially available films and other infringing material;

- That C's copyright had been infringed by Newzbin's premium members;

- That Newzbin was and had been aware for many years that the vast majority of films in the Movies category were commercial and so very likely protected by copyright and that members of Newzbin who used its NZB facility to download them were infringing that copyright;

- Expert evidence that Newzbin could have easily filtered binary content and so restricted access to unlawful copies of films and TV programmes;

- That Newzbin had been given written notice by C that Newzbin was being used by members to infringe C's copyright but had taken no action in response.

The terms and conditions on the Newzbin site provided:

"*You may only use the Site for lawful purposes. In particular you may not use the Site to transmit defamatory, offensive or abusive material or material of an obscene or menacing character, or which promotes hatred, violence or illegal conduct, or in breach of copyright or any other intellectual property rights, or in breach of the Computer Misuse Act 1990 or other relevant legislation or the rights of another User*."

The judge found that this warning was "*entirely cosmetic*" and was a "*superficial attempt to conceal the purpose and intention of D to make available binary content of interest to its users, including infringing copies of films. As will be seen, the defendant has done nothing to enforce this restriction. To the contrary, it has encouraged its editors to report and has assisted its users to gain access to such infringing copies*."

Newzbin provided a "delisting" facility. In order to get an item delisted, members had to follow a link which took them to a web page which instructed them that details of the item sought to be removed must be sent by registered post to a specified address. The judge was satisfied that this "*cumbersome procedure*" was "*entirely cosmetic and designed to render it impractical for rights holders to secure the removal of entries relating to infringing material from the Newzbin indices*".

At the end of 2009, Newzbin had a turnover of £1m and a profit of £360,000.

C commenced proceedings against Newzbin alleging that Newzbin had infringed its copyright directly or through its editors by:

- authorising acts of infringement by its members;

- procuring, encouraging and entering into a common design with its members to infringe;
- communicating C's works to the public, namely Newzbin's members.

C also argued that Newzbin was a service provider with actual knowledge of other persons using its service to infringe copyright and sought an injunction under section 97A of the Copyright, Designs and Patents Act 1988 ("the Act").

Section 97A provides:

(1) The High Court (in Scotland, the Court of Session) shall have power to grant an injunction against a service provider, where that service provider has actual knowledge of another person using their service to infringe copyright.

(2) In determining whether a service provider has actual knowledge for the purpose of this section, a court shall take into account all matters which appear to it in the particular circumstances to be relevant and, amongst other things, shall have regard to –

(a) whether a service provider has received a notice through a means of contact made available in accordance with regulation 6(1)(c) of the Electronic Commerce (EC Directive) Regulations 2002 (SI 2001/2013); and

(b) the extent to which any notice includes-

(i) the full name and address of the sender of the notice;

(ii) details of the infringement in question.

(3) In this section "service provider" has the meaning given to it by regulation 2 of the Electronic Commerce (EC Directive) Regulations 2002."

C was unable to point to specific acts of infringement as Newzbin did not keep records of who used its NZB facility.

Newzbin argued that it was simply a search engine like Google and was "content agnostic".

Decision

Mr Justice Kitchin in the High Court held:

- Authorisation - section 16 of the Act confers upon the owner of copyright in a film the exclusive right to copy the film and provides that copyright in the film is infringed by a person who, without the consent of the copyright owner, authorises another to do this. It was clear from *CBS v Amstrad* that "authorise" in this context meant the grant or purported grant of the right to copy. It was something more than mere enablement, assistance or encouragement to do the copying. In light of the various features of the Newzbin service including the editor's reports, the search facility, the lack of a filter for binary content and the "window dressing" contractual restrictions on copying and the NZB facility (which provides the means for infringement), a premium member would deduce that Newzbin purported to possess the authority to grant any required permission to copy any film that the member may choose from the Movies category and that Newzbin had sanctioned and approved the copying of the films. Newzbin had, therefore, authorised the copying of C's films.

- Procurement and participation in a common design – In light of all of the features of the Newzbin service, Newzbin had so involved itself in the copyright infringement as to make the infringement its own. Newzbin had procured and engaged in a common design with its premium members to infringe C's copyright.

- Communication to the public - taking into account all of the features of the Newzbin service, the fact that the service was "*not remotely passive*" and that Newzbin had intervened in a "*highly material way*" to make C's films available to its premium members, Newzbin's members would consider that Newzbin was making available to them the films in the Newzbin index. Newzbin had communicated these films to the public.

- The judge agreed to grant an injunction under section 97A to restrain Newzbin from infringing C's copyright in relation to their repertoire of films.

Comment

ISPs, indexing services and other online service providers may take some comfort from this judgment. The decision is highly fact sensitive and suggests that they will only be on the hook for copyright infringement if they do not put in place some fairly basic safeguards (such as an effective notice and take down procedure) and set up their systems in such a way that they are, in effect, sanctioning the infringements.

Further reading

Click here to read the judgment

High Court considers E-commerce hosting defence

In *Kaschke v Gray & Hilton*, the High Court has ruled on the availability of the 'hosting' defence in Regulation 19 of the Electronic Commerce (EC Directive) Regulations 2002 (the Regulations) in the context of an allegedly defamatory blog post.

Background

Regulation 19 of the Regulations implements Article 14 of the E-Commerce Directive. Regulation 19 provides:

Hosting

Where an information society service is provided which consists of the storage of information provided by a recipient of the service, the service provider (if he otherwise would) shall not be liable for damages or for any other pecuniary remedy or for any criminal sanction as a result of that storage where –

(a) the service provider –

(i) does not have actual knowledge of unlawful activity or information and, where a claim for damages is made, is not aware of facts or circumstances from which it would have been apparent to the service provider that the activity or information was unlawful; or

(ii) upon obtaining such knowledge or awareness, acts expeditiously to remove or to disable access to the information and,

(b) the recipient of the service was not acting under the authority or the control of the service provider…

Facts

Hilton (H) operated and controlled a political commentary website on which Gray (G) posted a blog entry allegedly defamatory of Kaschke (K). K brought proceedings against H for libel. H relied on the Regulation 19 hosting defence and sought summary judgment to strike out K's claim. The application failed and H appealed.

On appeal, the High Court was called on to interpret Regulation 19, in particular whether H's information society service amounted to mere storage of information allowing the hosting defence to be available to him.

It was clear from the evidence that H took an active role in relation to the website as a whole. He secured articles from high profile politicians or writers, wrote articles himself to go onto the website and conducted polls and interviews which also went onto the website. He took a more limited role in relation to individual blog posts. In relation to these he read and 'promoted' the most interesting by making them more prominent on the page. At the same time, he corrected the spelling and grammar. He also deleted some posts; those which he thought were offensive or which were obviously spam. Until receiving a letter before action from K, H had never read G's post or promoted it.

Decision

Mr Justice Stadlen held that the H was providing an information society service. In this case, the information society service was not the website as a whole or the hosting of all blogs posted on the webpage. If it had been either of this the hosting defence would not have been available to H as it was clear that his role in relation to both went beyond mere storage. The information society service was in fact the hosting of G's blog alone. H had done nothing with the blog and had not even read it. It had been posted to the website without any intervention by H. In relation to G's blog entry, H had done nothing more than merely stored the information and was therefore potentially able to rely on the hosting defence in relation to the claim for libel. H would not be precluded from relying on the defence merely because he also provided the same or different information society services which went beyond mere storage of information.

However, the judge held that exactly what role H had taken in relation to G's blog post needed to be investigated further and so the matter should go to trial. H's appeal was dismissed.

Further reading

Click here to read the judgment

Online retailers must refund delivery costs

In *Handelsgesellschaft v Verbraucherzentrale*, the Court of Justice of the European Union (CJEU) has ruled that online and mail order retailers must reimburse delivery costs if a consumer withdraws from the contract.

Background

The Distance Selling Directive gives consumers a right to return goods bought by distance means (typically online or by mail order) for a full refund within seven days of receiving them. Article 6 of the Directive says:

"*For any distance contract, the consumer shall have a period of at least seven working days in which to withdraw from the contract without penalty and without giving any reason. The only charge that may be made to the consumer because of the exercise of his right of withdrawal is the direct cost of returning the goods."*

Where the right of withdrawal has been exercised by the consumer… the supplier shall be obliged to reimburse the sums paid by the consumer free of charge. The only charge that may be made to the consumer because of the exercise of this right of withdrawal is the direct cost of returning the goods."

Facts

Handelsgesellschaft (H) was a mail order company based in Germany. Its conditions of sale provided that consumers paid a flat rate delivery charge of 4.95 Euros which H would not refund in the event that the consumer withdrew from the contract.

Verbraucherzentrale (V), a German consumer organisation, sought an injunction to restrain H from charging consumers the cost of delivery of the goods in the event of withdrawal. The matter was referred to the CJEU which was asked to rule on whether there would be a conflict with Article 6 of the Directive if German law provided that distance sellers did not have to refund delivery charges when a consumer exercised his/her right to withdraw from the contract.

Decision

The CJEU held that there would be such a conflict. The Directive required suppliers to reimburse all sums paid by the consumer on withdrawal, not merely the price paid. This was in line with the scheme of the Directive which was to encourage consumers to buy using distance means by giving them a right of withdrawal that was "more than merely formal". If consumers were not refunded the delivery charges there would not be a balanced sharing of risk by suppliers and consumers. It was irrelevant to the issue that consumers would have been given prior information as to the level of the delivery charges.

Comment

It is clear that retailers selling online, by mail order or other distance means should not charge consumers for the delivery of goods returned when they withdraw from the contract, and must refund the delivery charges. Consumers can, however, be required to pay the cost of returning the goods.

Further reading

Click here for a copy of the judgment

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