Hammonds

COMMERCIAL AND INTELLECTUAL PROPERTY LAW BULLETIN

October 2010

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

Commercial Intellectual Property Media/Advertising

This month's bulletin includes a review of the ECJ's ruling on in-house counsel privilege in Akzo Nobel, a look at the Court of Appeal's judgment in Oracle v M-Tech restricting brand owners' rights to block parallel imports and a review of BIS' consultation on the implementation of new European laws concerning the use of cookies.

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

COMMERCIAL

Back to Top

Court of Appeal ruling on direct and indirect losses

In the November 2009 edition of this bulletin, we reported on the High Court's decision in *GB Gas Holdings Limited v Accenture*. The court considered whether items of GB's loss from a breach of warranty were direct or indirect losses and consequently within or outside the scope of an exclusion clause. The decision was surprising in some respects, with items of loss that many would consider to the indirect held by the court to be direct and so outside the exclusion clause. We now have the Court of Appeal's ruling in this case. Set out below is a reminder of the High Court's ruling and a review of the Court of Appeal's decision.

Facts

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

Recital A of the Agreement provided:

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

The Agreement contained the following warranty at clause 15.2.2:

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

The Agreement also contained the following exclusion clause at 16.2

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

16.2.3 any losses, damages, costs or expenses whatsoever to the extent that these are indirect or consequential or punitive;

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

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

C commenced proceedings against A seeking damages for breach of the warranty in clause 15.2.2. Its claim was for five specific heads of loss, namely

- Gas distribution charges (£18,700,000) - C purchased gas wholesale from distributors and was charged according to the volume supplied to its customers. As result of the problems with Release 3, the distributors were provided with erroneous customer consumption data and C was over-charged in the sum of almost £19m.

- Customer compensation (£8,000,000) - C paid £8m to customers affected by the billing difficulties by way of compensation to minimise the damage to its reputation.

- Additional borrowing charges (£2,000,000) - As a result of the difficulties in billing customers, C's revenue was reduced and it was forced to incur £2m in additional borrowing charges to finance its business.

- Cost of chasing debts (£387,287) - C incurred this sum in chasing debt from its customers which was not, in fact, due but which C thought was due as a result of the errors in Release B.

- Additional stationery and correspondence costs (£107,120) - C incurred stationery and correspondence costs in writing to customers to keep them informed of the billing problems and how the problems were being rectified.

The High Court was asked to decide as a preliminary issue whether these items of loss amounted to direct or indirect losses within the first or second limbs of *Hadley v Baxendale* and, therefore, whether they were potentially recoverable or excluded by clause 16.2.

High Court's decision

The High Court held:

- Gas distribution charges - a direct loss. These had arisen as a direct result of the errors in Release 3. This was not a claim for revenue but for charges that would not have been paid but for the errors with Release 3. Therefore, this item of loss was not excluded by 16.2.2 or 16.2.23.

- Compensation paid to customers - a direct loss. Recital A made it plain that the new billing system was to improve customer relations and A should assume responsibility for compensation paid to customers if the billing system failed to perform as it should. This loss was not excluded by clause 16.

- Additional Borrowing Charges - a direct loss. The billing system was at the heart of C's business and any problems with it were bound to have an adverse impact on C's revenue with the very likely consequence that it would have to borrow. This loss was not excluded by clause 16.

- Cost of chasing debt - a direct loss. This loss flowed naturally and in the ordinary course of events from the breach of warranty. This loss was not excluded by clause 16.

- Additional stationery and correspondence costs - a direct loss. The new billing system was to improve customer relations; A should assume responsibility for the costs of attempting to maintain good customer relations when the billing system did not perform as it should. This loss was not excluded by clause 16.

The High Court also ruled that material defects in the billing system could be combined to create a fundamental defect that would trigger greater liability for A. The contract between C and A was changed part way into its term with the result that A paid C to fix problems in the system that were materials defects but A itself was to fix any fundamental defects where these resulted in a severe adverse effect on C's business. It said:

> "*In my opinion… a fundamental breach of warranty can be constituted by individual breaches of warranty. The consequences of such individual fundamental breaches can be aggregated for the purposes of deciding whether there was a severe adverse effect on [C's] business*."

Court of Appeal's ruling

In its recent ruling, the Court of Appeal upheld the High Court's decision in full. On the question of combining breaches for the purpose of assessing whether there was a fundamental breach it said:

> "*On A's case…no Material Defect can…be combined with any other material defect to produce a severe adverse effect for the purpose of constituting a Fundamental Defect. Yet, this would have the effect that even fundamental breaches of warranty (individually causing an adverse effect) could not be combined, nor could breaches of warranty (of a non-fundamental kind) be combined although they had each had a severe adverse effect. It is not likely that the parties could have contemplated such a (to my mind) bizarre result."*

Comment

This case demonstrates that it can be difficult to predict with certainty whether any particular item of loss resulting from a breach of contract will be categorised as direct or indirect. Anyone drafting exclusion clauses should consider what types of loss may flow from a breach of the contract and specifically provide for those losses to be excluded (if that is the parties' intention) rather than relying on a general exclusion of direct or consequential loss.

This case is also interesting on the issue of aggregation of faults as it illustrates that suppliers could be liable for claims for fundamental breach arising from the cumulative effect of a series of faults, each of which could look relatively minor in isolation.

Further reading

Click here for a copy of the Court of Appeal's judgment

Court of Appeal ruling in brand licensing case

The Court of Appeal has given its ruling in the *Hudson Bay Apparel Brands LLC v Umbro International Ltd* case. The case concerned an exclusive licence to use the Umbro brand on certain sports clothing. It is of wider interest outside the facts of the case itself because it serves as a reminder to licensees and licensors to draft licences

clearly so that there is no ambiguity over their scope. As it turns out, the Court of Appeal upheld the High Court's earlier decision. Read on for further information.

Facts

In 2006-7, Umbro UK entered into two separate exclusive licences to sell soccer-based clothes in the US. One licence was with Dick's Sporting Goods ("Dick's"), a large retailer, to sell Umbro branded "on-field wear" (i.e. replica clothes worn on the field of play during a football match). The other licence was with Hudson Bay. This licence granted Hudson Bay the right to sell Umbro branded "off-field wear". This was defined in the licence as being clothing "not specifically intended to be used on the field of play" and limited to a number of specified types of branded clothing. The precise distinction between "off-field" and "on-field" wear was central to the case. A key differentiator between on-field and off-field wear was the presence or absence of pockets: on-field wear does not usually have pockets.

Hudson Bay was required by its licence to obtain Umbro UK's prior approval to its clothing designs before selling them. In fact, the licence provided for a complicated approval process to be followed by Hudson Bay which required a representative of Umbro UK to give written approval at several different stages in the manufacturing process. However, in practice, Hudson Bay had largely worked with Umbro UK's subsidiary, Umbro US, and this later created some confusion who over could and could not approve the designs.

Hudson Bay wished to launch an Umbro branded range of "soccer basics" clothing, namely shorts and t-shirts (the "Soccer Basics"). Crucially, these would be pocketless. The President of Umbro US orally approved these products for sale. The formal approval process set out in the licence was not followed. Dick's subsequently objected to the sale of the Soccer Basics on the basis that they were on-field wear which it was exclusively licensed to sell.

At around the same time, Umbro UK also approved a number of designs proposed by Dick's for items such as tank-tops and t-shirts (the "Dick's Clothing"), despite the possibility that these may be off-field wear which Hudson Bay was exclusively licensed to sell.

Subsequently, Umbro UK wrote to Hudson Bay stating that the range of Soccer Basics was outside the scope of Hudson Bay's licence, being on-field wear. It argued that it had never pre-approved the sale of the clothing and insisted that Hudson Bay remove the Soccer Basics from sale. Pending the outcome of the dispute, Umbro also refused to supply clothing to Hudson Bay and to approve Hudson Bay's new ranges of clothing.

Hudson Bay sued Umbro UK for breach of contract, alleging:

1. by allowing Dick's to market the Dick's Clothing, Umbro UK had breached Hudson Bay's exclusive licence for off-field wear; and

2. by refusing to supply clothing to Hudson Bay or approve its current ranges of clothing, Umbro UK was hindering Hudson Bay from exploiting its licence in breach of an implied duty of co-operation owed to Hudson Bay.

Umbro UK denied both of these claims. It also counter-claimed that Hudson Bay was in breach of its exclusive licence by marketing the Soccer Basics range. Umbro UK argued that the Soccer Basics range was clearly on-field clothing which fell outside the scope of Hudson Bay's licence. Umbro UK also maintained that it had never pre-approved the Soccer Basics range. It claimed that the President of Umbro US had no authority to give the approval to the Soccer Basics she had purported to give and that, accordingly, Umbro UK was not bound by her 'approval'.

Decision

The case was initially heard in the High Court. Since there was no industry standard usage of the phrases "on-field" and "off-field", the court was forced to consider the minutiae of what features of the clothing in issue might make a garment on-field or off-field wear. This required the court to examine the fabric used for the clothing, the size of the logos used on them, how the clothing was marketed and, crucially, whether pockets were included.

On the first question of whether the Dick's Clothing amounted to off-field wear, the court held that the clothing was indeed off-field wear. This fell outside the scope of Dick's licence and amounted to a breach of Hudson Bay's licence by Umbro UK.

In relation to the second claim that Umbro UK had improperly prevented Hudson Bay from exploiting its licence, the court held that it would not imply a clause into the licence requiring Umbro not to unreasonably withhold its approval of products (since this could have been included expressly), but that a term should be implied to the effect that Umbro was "not permitted to refuse or fail altogether to consider products or materials submitted for approval". Umbro UK was in breach of this term by failing to consider the latest designs submitted by Hudson Bay. However, Umbro UK was entitled to refuse to supply clothing to Hudson Bay pending the outcome of the dispute as this decision was based on entirely reasonable commercial considerations.

Finally, the court also upheld Umbro UK's counterclaim in relation to the Soccer Basics clothing. The clothing was clearly on-field wear. The primary reason why the court came to this conclusion was because the shorts and t-shirts were pocketless and this fact was decisive on this question. The court also held that the President of Umbro US had no actual or ostensible authority to bind Umbro UK in pre-approving the Soccer Basics as she was not an employee or director of Umbro UK. Accordingly, the Soccer Basics had never been approved by Umbro UK and, as such, had been marketed by Hudson Bay in breach of its licence.

Hudson Bay appealed to the Court of Appeal which essentially upheld the High Court's decision and its reasoning.

Comment

Although the outcome in this case is fact specific, it has wider interest beyond its facts in relation to the drafting of licences. The crux of this case was the drafting of the exclusively and scope elements of the licence. There was ambiguity over what amounted to on-field and off-field wear which caused two licensees to step outside the scope of their own licence and into the realms of another's licence. If several licensees are to be granted exclusive rights, especially if they are competitors of one another, the licensor should make the extent of each licence extremely clear through unambiguously defining the scope of the licence and the licensed products covered by it.

In addition, approvals clauses should be carefully drafted to ensure that everyone knows what approvals need to be obtained, from whom and how. These clauses should specifically provide for a process for approvals (preferably written) that is workable in practice, the extent of the licensor's discretion to approve or reject products (to undermine arguments that approval has been unreasonably withheld) and the timescale for the licensor's decision (and if there is a deemed rejection if no response is received within the timescale). Mostly importantly, the clause should specify who within the licensor's organisation has the authority to give approvals to ensure that it is crystal clear whether a valid approval has been given or not.

Further reading

Click here for a copy of the Court of Appeal's judgment

Consultation on bribery guidance to commercial organisations

Under the Bribery Act 2010, commercial organisations can be criminally liable if their employees, agents or others associated with the organisation give bribes. The organisation will have a defence if it can show that it had adequate procedures in place to prevent bribery. The Act places the government under an obligation to issue guidance on what these adequate procedures should be.

Last week, the Ministry of Justice began a consultation on the content of that guidance. It invites organisations of all sizes to comment. The consultation remains open until 8 November 2010. The guidance is likely to be issued in early 2011, in time for the coming into force of the Act in April.

Full details of the consultation can be accessed by clicking here

UK government's consultation on proposed reforms to contract law in Europe

As reported in the July edition of this bulletin, the European Commission recently launched a consultation on whether and how the contract laws of EU Member States should be changed to encourage cross-border trading. The Commission is concerned that businesses choose not to trade cross-border because of the difficulties of dealing with unfamiliar (and often inaccessible from a language point of view) contract laws. This is particularly the case where the contract is with a consumer who will automatically gain some protection from his/her own national laws. The Commission wants to stimulate cross-border trade and considers that this will help progress on economic recovery.

The consultation was launched by means of a Green Paper from the Commission which set out the ways in which contract law could be changed. These range from merely recommending to Member States how they could amend their contract laws to create greater contract law harmonisation throughout Europe through to the creation of a European Civil Code which would entirely replace the contract laws of individual Member States with a new binding and harmonised contract law regime.

The Commission's consultation closes in January 2011 and the Commission hopes to make progress on implementing the reform by 2012.

Since then, the UK government has launched its own consultation on the issues raised by the Commission. The government wants interested parties to pass on their views about the Commission's proposed reforms and what changes, if any, they think are needed to the current contract law regime in Europe. The government intends to collate these views and use them as the basis for the UK's response to the Commission's consultation. The consultation closes on 26 November.

In-house Counsel and Legal Professional Privilege: ECJ gives ruling in Akzo Nobel

The European Court of Justice ruled yesterday (maintaining the position under existing law) that in-house counsel have no right to claim legal professional privilege over communications between them and their employer in European Commission competition investigations.

The findings in the long-awaited judgment on the Akzo Nobel appeal, whilst disappointing, were largely expected and pre-empted by the Advocate General's opinion earlier this year (previously reported on in this bulletin). The decision follows established case law that communications involving competition issues will only be subject to legal professional privilege where they are connected to "the client's right of defence" and that the exchange must emanate from "independent lawyers" ie "lawyers who are not bound to the client by a relationship of employment". In the view of the Advocate General:

"*An in-house lawyer, despite his involvement with the Bar or Law Society and the professional ethical obligations to which he is, as a result, subject, does not enjoy the same degree of independence from his employer as a lawyer working in an external law firm does in relation to his client. Consequently an in-house lawyer is less able to deal effectively with any conflicts between his professional obligations and the aims of his client*".

Akzo were subject to an anti-trust raid by the European Commission at their offices in Manchester in early 2003. Of all the documents seized, two e-mails emanated from in-house counsel on competition issues. Legal professional privilege was claimed over those documents but the Court of First Instance rejected Akzo's claims. As the matter went to appeal Akzo were supported in their campaign to re-instate legal professional privilege by a number of interveners including the UK Government, International Bar Association, Association of Corporate Counsel and many others, but to no avail.

The ECJ has been categorical in this decision. In-house counsel now (in essence) are not trusted to give independent legal advice on such competition issues or indeed to advise on competition compliance. If such advice is given, it will be subject to disclosure and scrutiny if the European Commission instigates a cartel investigation. Legal professional privilege is maintained if the advice is given by external counsel or lawyers.

This ruling does not alter the English law position on legal professional privilege, which applies to all communications between in-house counsel and its employer provided that the in-house counsel is acting in a legal capacity and not an executive function.

Click here for a copy of the ECJ's judgment

INTELLECTUAL PROPERTY

Back to Top

Court of Appeal ruling in the VODKAT case

In the January edition of this bulletin we reported on the High Court's decision in *Diageo North America Inc v Intercontinental Brands (ICB) Limited*, better known as the VODKAT extended passing off case. The Court of Appeal has now given its ruling in this case.

'Extended passing off' is where suppliers of goods of a particular description bring a passing off claim to restrain rival traders from using that description, or a confusingly similar term, in relation to goods which do not correspond to that description. Protection is sought in respect of the goodwill generated by a particular product rather than by relying on the mark of the particular trader who produces it. On this basis, the courts have prevented terms such as "Spanish champagne", "sherry" and "Swiss chalet" from being applied to products which were not champagne, sherry from Jerez or Swiss chocolate respectively. The early cases concerned descriptions relating to the geographic origin of goods but the case of *Warnink v Townend* in 1979 (the '*Advocaat'* case) extended the law to cover descriptions with no geographic element.

Facts

This claim was brought by Diageo, the world's leading supplier of alcoholic drinks (including SMIRNOFF vodka) against Intercontinental Brands (IB). IB sold a clear, virtually tasteless drink comprising of a mixture of vodka and neutral fermented alcohol with an overall ABV of 22%. The drink was sold under the sign VODKAT initially in get up reminiscent of a vodka bottle comprising white letters on a red background in a 'Russian' style which was particularly common amongst vodka brands (the get up was later changed). VODKAT was placed alongside vodkas on supermarket shelves.

The European spirit market is regulated by European legislation. Regulation 110/2008/EC defines what constitutes vodka as "a spirit drink produced from ethyl alcohol of agricultural origin following fermentation with yeast from either potatoes and/or cereals or other agricultural raw materials…. The minimum alcoholic strength by volume of vodka shall be 37.5%...".

Diageo commenced proceedings for extended passing off alleging that IB were misrepresenting VODKAT as vodka even though its ABV was only 22%.

High Court decision

Mr Justice Arnold in the High Court found for Diageo. He held that each of the 'classic trinity' of goodwill, misrepresentation and damage required to found a passing off claim were satisfied. The term 'vodka' denoted a particular class of alcoholic beverage. That class was defined in the European Regulation and was recognised by the alcohol-consuming public in the UK. Vodka had acquired a reputation as a "drink with recognisable qualities of appearance, taste, strength and satisfaction" which gave rise to a protectable goodwill. IB's marketing of VODKAT amounted to a misrepresentation that it was vodka. The get up (particularly the early get up), the location on supermarket shelves and the lack of a clear description of the product on the bottle meant that a substantial number of members of the public were deceived into believing that VODKAT was vodka. Diageo had suffered damage in the form of lost sales. There was other damage too in that IB's marketing of VODKAT was likely to

erode the distinctiveness of the term 'vodka'. It would cease to be a term reserved for 37.5% ABV spirits and would come to be seen as a term applicable to lower strength products.

IB appealed but only on one ground which was that for a claim for extended passing off to succeed, the product in question must have some cachet in the sense that it is perceived by the relevant public as being of superior quality or as a premium product. IB claimed that this additional requirement was supported by previous judicial decisions and was required in order to prevent the floodgates opening to allow extended passing off to protect such products as butter, unleaded petrol or white paint.

Court of Appeal ruling

The Court of Appeal dismissed IB's appeal and upheld the High Court's decision and its reasoning. A product could be protected by extended passing off regardless of whether it had cachet. A claimant only had to show that the class of goods concerned was clearly defined and had goodwill and that the claimant sold goods in that class and was suffering damage as a result of the defendant misrepresenting that its goods were within that class. Previous judicial decisions did not support the introduction of a cachet requirement. This was not a requirement of an action for classic passing off either. In addition, extended passing off as a cause of action was essentially self limiting because of the requirement to prove reputation in a distinctive product and the necessary level of goodwill. This would ensure that products such as white paint would not be protected by this cause of action.

Comment

If IB's argument had been accepted and the cachet requirement added, this would have created difficulty in defining 'superiority' in each case. As it is, this case illustrates that extended passing off can apply to protect an identifiable class of goods even though the term is generic. Note, however, that Lord Justice Rix did express concern about the potential scope of this cause of action. His view was that extended passing off should be limited to protecting geographic descriptions rather than applying to generic products. He said:

> "*I remain concerned that the extended form of passing off should not by dint of extensions upon extensions trespass beyond the legitimate area of protection of goodwill into an illegitimate area of anti-competitiveness*".

Further reading

Click here for a copy of the judgment

New limitation on the rights of brand owners to block parallel imports

In *Oracle America Inc (formerly Sun Microsystems Inc) v (1) M-Tech Data Limited (2) Stephen Lawrence Lichtenstein*, the Court of Appeal has qualified the rights of brand owners to use their trade mark rights to block parallel imports of their products.

Background

Article 5 of the Trade Marks Directive (2008/95/EC) ("TMD") gives a trade mark owner exclusive rights to prevent another party using its trade mark in the course of trade.

Article 7 TMD provides that if a trade mark owner puts its goods on the market within the EEA, it cannot subsequently use its trade mark rights to prevent further sales of those goods. Its trade mark rights are

‘exhausted’. However, a trade mark owner can use its trade mark rights to block parallel imports of its goods; that is, the importation and sale in the EEA of goods which were first put on the market outside the EEA.

Articles 28 and 30 of the EC Treaty (now Articles 34 and 36 of the Treaty on the Functioning of the European Union (TFEU)) provide:

> "*Quantitative restrictions on imports and all measures having equivalent effect shall be prohibited between Member States*".
>
> "*The provisions of Articles 28 and 29 shall not preclude prohibitions or restrictions on imports…justified on grounds of …the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States*."

Article 81 of the EC Treaty (now Article 101 TFEU) provides:

> “*The following shall be prohibited as incompatible with the internal market: all agreements between undertakings …which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the internal market, and in particular those which: (a) directly or indirectly fix purchase or selling prices or any other trading conditions….* "

Facts

M-Tech imported into the UK from the US 64 Oracle disk drives bearing Oracle’s trade mark. The disk drives had originally been put on the market by Oracle in China, Chile and the US. Oracle sued for trade mark infringement under Article 5 TMD. It was clear that its rights had not been exhausted under Article 7. Oracle successfully obtained summary judgment in the High Court. M-Tech appealed.

Three factual matters were of importance in this case. First, Oracle did not publish information which would enable a reseller like M-Tech to establish whether or not particular products had been placed first on the market in the EEA. Second, Oracle “*aggressively pursues independent resellers for trade mark infringement if they have offered for sale any Oracle hardware which was first marketed outside the EEA*.” Third, Oracle had made it a term of its agreements with distributors and resellers of its products that they must buy Oracle new and second hand equipment from within its supply network unless a particular item could not be supplied from that network.

Decision

The Court of Appeal allowed M-Tech’s appeal and set aside the order for summary judgment. Its reasoning was that the rights conferred by Articles 5 and 7 were not absolute and could not be read and enforced in isolation. They had to be considered in conjunction with European law in general and, in particular, Articles 28 and 30 of the EC Treaty. The Court’s felt it was arguable that Oracle’s failure to publish information helpful to resellers and its aggressive enforcement policy amounted to measures having equivalent effect to quantitative restrictions on imports contrary to Article 28 or, alternatively, amounted to an abuse of the Article 5 and 7 rights by Oracle. The court said:

> “*In my judgment, there is a real prospect of establishing that Articles 5 and 7 TMD must be interpreted by reference to Articles 28 and 30 EC and that on the facts and matters pleaded a breach of Article 28 will be established which will not be capable of being justified under Article 30 EC or Article 7 TMD and which will affect Oracle's right to sue M-Tech as a parallel importer for infringement of its marks*.”

> "… *the practices alleged arguably have more to do with restricting imports with the object of preventing price competition within the EEA and thereby protecting Oracle's profit margins than with the proper exercise of the right to control the first marketing of Oracle equipment within the EEA*".

The court also found that there was a connection between Oracle's proceedings against M-Tech and Oracle's agreements with its distributors and resellers. These agreements formed part of an overall scheme for excluding secondary traders from the market. In recent years, as a result of Oracle's policy, trade in the independent network had largely disappeared. This was detrimental to competition. It also caused artificial partitioning of the market in second-hand Oracle equipment, and permitted Oracle to control that market. Accordingly, it was arguable that it was contrary to Article 81 for Oracle to enforce its trade mark rights against M-Tech.

The Court of Appeal came to the conclusion that, for each of these reasons, it was arguable that Oracle should not be able to use trade mark rights to prohibit the parallel importation of the disk drives by M-Tech.

The court referred the matter back to the High Court for a full trial of the issues. The Court indicated that its interpretation of the law in this appeal was entirely new. There was no UK or European law precedent for saying that rights in the TMD could be qualified by other European laws. It anticipated, therefore, that the High Court may want to make a reference to the Court of Justice of the European Union for a ruling on whether this interpretation of the law was indeed correct. It said:

> "*This case clearly has important financial and economic implications not just for the parties but also for others involved in the grey market in Oracle, and possibly other, computer hardware and goods. The economic function of parallel imports and the grey market is controversial*".
>
> "*.. the trial judge will have to consider whether to make a reference to the Court of Justice to enable him to decide the issues in the action. In the absence of any material change in European Union law or in M-Tech's case, there would be a strong case for a reference by the trial judge. The point is not acte clair, and in this case where the issues involve questions of economic policy likely to affect the European Union as a whole and where this court has already considered the points of European Union law in issue, there would be a good reason to make a reference without waiting for the case to reach this court again*."

Comment

This case was merely an appeal against an order for summary judgment and so has not yet set a clear precedent on the law in this area. However, a reference to the Court of Justice could provide a ground breaking ruling that the Article 5 and 7 trade mark rights are to be qualified by other European laws, particularly Articles 28 and 30. This would make it much more difficult for brand owners to rely on their trade mark rights to prohibit parallel imports and whether their behaviour was generally anti-competitive would be open to close scrutiny. Any such ruling would, however, be welcomed by independent resellers.

Further reading

Click here for a copy of the judgment

MEDIA/ADVERTISING

Back to Top

BIS launches consultation on new law on cookie use

On 13 September, the Department for Business, Innovation and Skills (BIS) launched a consultation on the implementation of the amendments to the E-Privacy Directive concerning the use of cookies.

Background

As previously reported in this Bulletin, in December 2009 the Citizens' Rights Directive came into force. The Directive amends, amongst other things, the E-Privacy Directive concerning when cookies may be legitimately used. Article 5(3) of the current E-Privacy Directive provides:

> "*Member States shall ensure that the use of electronic communications networks to store information or to gain access to information stored in the terminal equipment of a subscriber or user is only allowed on condition that the subscriber or user concerned is provided with clear and comprehensive information in accordance with Directive 95/46/EC, inter alia about the purposes of the processing, and is offered the right to refuse such processing by the data controller. This shall not prevent any technical storage or access for the sole purpose of carrying out or facilitating the transmission of a communication over an electronic communications network, or as strictly necessary in order to provide an information society service explicitly requested by the subscriber or user.*"

Essentially, this establishes an opt-out regime for cookie use. Users must be given clear and comprehensive information about how and why cookies are used on any given website (this is usually included in the privacy policy) but the website operator/online advertiser can then go ahead and use the cookies and it is up to the user to opt-out if they wish.

Article 5(3) of the Directive as amended now provides:

> "*Member States shall ensure that the storing of information, or the gaining of access to information already stored, in the terminal equipment of a subscriber or user is only allowed on condition that the subscriber or user concerned has given his or her consent, having been provided with clear and comprehensive information, in accordance with Directive 95/46/EC, inter alia, about the purposes of the processing. This shall not prevent any technical storage or access for the sole purpose of carrying out the transmission of a communication over an electronic communications network, or as strictly necessary in order for the provider of an information society service explicitly requested by the subscriber or user to provide the service*".

Although there is some uncertainty over how these amendments should be interpreted, the generally accepted view is that users will be required to specifically opt-in to cookie use; that is, on each visit to a website, pop up boxes should be displayed on entry to the site informing the user about the use of cookies on that site and asking users to positively agree to their use. This has subsequently been confirmed by the Article 29 Working Party. In a published opinion concerning the use of cookies in behavioural advertising it has said that strict opt-in consent should be required, at least in that context. However, it is likely that the Working Party would adopt the same opinion in relation to cookie use generally. The opinion is not legally binding, however it has caused concern amongst website operators and online advertising providers because of the potential costs of complying with a

strict opt-in regime and, more significantly, the likely disruption to the user experience which could result in loss of customers.

There is one caveat to this which appears in recital 66 of the Citizens' Rights Directive. Recital 66 provides:

> "*Where it is technically possible and effective, in accordance with the relevant provisions of Directive 95/46/EC, the user's consent to processing* [ie cookies] *may be expressed by using the appropriate settings of a browser or other application. The enforcement of these requirements should be made more effective by way of enhanced powers granted to the relevant national authorities"*

The Article 29 Working Party's view is that browser settings should only deliver consent in very limited circumstances. This, it says, is because the current default on most browser settings is to accept cookies and many users would simply not bother (or not know how) to change that. In its view, browser settings should only deliver consent to cookie use where the browser was set up by default to reject cookies. This would mean that users would have to change the setting affirmatively to accept cookies (in other words, specifically opt-in).

The new position

The E-Privacy Directive was implemented in the UK by the Privacy and Electronic Communications (EC Directive) Regulations 2003. BIS has launched a consultation on the implementation of the amended Article 5(3) into UK law. Interestingly, the government specifically rejects creating an opt-in regime for cookie use generally. Its view is that such a regime would require users to consent to every cookie placed on their computer and this would lead to a permanent disruption of online services and to online providers suffering substantial losses (lost revenue, including lost sales and reduced advertising revenue, from users choosing not to allow cookies and costs incurred in programming pop-up windows or other means of obtaining consent).

Instead, the government proposes simply to copy the amended Article 5(3) verbatim into UK law and leave it to the Information Commissioner to specify what website operators/online advertisers are required to do in terms of obtaining consent to cookies. This, it says, allows greater flexibility in this area to keep track with changes in technology and usage. The government also proposes to allow online providers to take advantage of Recital 66; that is, users will be allowed to demonstrate consent to cookies simply by their browser setting being set to accept them. However, the government's view is that users should be given clear and comprehensive information about cookie use and how to opt out if they wish. They should also be given information about using browser settings for this purpose, including how to alter settings to accept or reject cookies as required.

The government has declined to give guidance on when cookie use will be "*strictly necessary in order for the provider of an information society service explicitly requested by the subscriber or user to provide the service*" saying that, given the fast paced nature of the internet, it would be almost impossible to do this without risking damaging innovation.

Comment

Website operators/online advertisers will welcome the government's pragmatic position. Unless this changes following the consultation (which is unlikely), it seems that the current position on cookie use will remain unchanged; that is, users must be given information about cookie use and how to opt-out (using browser settings) but no opt-in consent regime will be introduced. This will, however, be in direct conflict with the Article 29 Working Party's opinion.

The consultation closes on 3 December 2010. The amended Article 5(3) must be implemented into UK law by 25 May 2011.

Further reading

Click here to go to BIS' website to view the consultation documents

Government announcement on Digital Economy Act cost sharing

The government has announced how the costs of complying with the Initial Obligations in the Digital Economy Act 2010 will be shared as between copyright owners and ISPs.

The Initial Obligations are aimed at reducing online copyright infringement. They require ISPs to:

- Notify their subscribers if the IP addresses associated with them are reported by copyright owners in a copyright infringement report (CIR) as being used to infringe copyright.
- Provide, on an anonymous basis, copyright infringement lists to copyright owners. This provision will only apply to subscribers about whom the number of CIRs has exceeded a threshold, to be set in an initial obligations code. On the basis of this information, a copyright owner could apply to the courts for a Norwich Pharmacal order to obtain the names and addresses of those subscribers on the list.

The Digital Economy Act provides that the Secretary of State is to specify how the costs of complying with these obligations will be shared between copyright owners and ISPs. Following a consultation on this issue, the government has announced that the costs will be shared between rights holders and ISPs in the ratio of 75:25 respectively. Copyright owners will be disappointed that they have to shoulder the main costs involved here and ISPs are also likely to be disappointed that they have to bear any of the costs at all.

This decision will form the basis of a statutory instrument, enshrining it in law.

Click here to read BIS' response to the consultation and press release

New and extended CAP code

On 1 September, new CAP and BCAP codes were introduced. From 1 March 2011, the remit of the CAP Code will be extended to cover marketing communications on an organisation's own website.

The CAP Code already applies to advertisements in newspapers, catalogues, posters and other media. Its digital remit currently only covers advertisements in emails and text messages and in paid-for space, such as banner and pop-up advertisements or keyword advertising on search engines.

Because of the increased use by organisations of their own websites and other non-paid-for space online, such as social networking sites, for advertising and greater public expectation that advertising on organisations' own websites should be regulated, the CAP Code has been extended, with effect from 1 March 2011. From this date, the CAP Code will apply to:

> "*Advertisements and other marketing communications by or from companies, organisations or sole traders on their own websites, or in other non-paid-for space online under their control, that are directly connected*

with the supply or transfer of goods, services, opportunities and gifts, or which consist of direct solicitations of donations as part of their own fund-raising activities."

In effect, organisations are given a six month grace period in order to get on top of the new rules and alter their advertising if necessary so as to achieve compliance.

ASA will retain its existing sanctions in respect of advertisements that fall foul of the code. Effective from 1 March, it will also be able to name and shame offenders on its website and by way of paid-for advertisements on internet search engines, and take down paid-for search advertisements that link directly to the non-compliant advertisement.

The changes represent a major expansion of the ASA's remit. Businesses need to undertake a through audit of their websites to ensure that advertising there is compliant.

Click here to read the ASA's press release