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Contracts

Estate agents lost £2m commission because deal was structured as a share sale rather than property sale – Estafnous v London & Leeds Business Centres Limited, High Court...

This case involved a complex connection of parties. K was the ultimate shareholder of LLBC, who indirectly had a long leasehold interest in a London property. An estate agent asked K whether K would consider selling the property to one of the agent's clients. K said he would sell for £22m. The agent obtained an offer for £19m from a potential buyer. The agent and LLBC then entered into a commission agreement, in which: LLBC agreed to sell the property for £19m to a party to be introduced to it; LLBC would pay £2m commission to the agent when a buyer introduced by the estate agent completed a purchase of the property; and that commission would be paid on completion of the sale of the property. Three months later, K sent an email to the estate agent saying that there was now going to be a sale of the company in order to save stamp duty. Two months after that, the transaction stalled. It was revived a year later without the agent's involvement. In the meantime, the purchaser had changed as it was now a company associated with the original buyer and that purchaser bought shares in a new ultimate parent company of LLBC. The sale of the company went ahead for £16m. The agent claimed its £2m commission from LLBC.

The High Court dismissed the agent's claim for commission and said no commission was due. The original agreement did not cover the share sale transaction. It only covered a sale of the property, not the shares in the ultimate holding company of the registered proprietor. The purchase of a land-owning company was adjudged to be a different transaction from the purchase of land. The agreement was also not varied by the email, which had not referred to the commission agreement or the agent's commission, but merely clarified the terms of the deal between K and the buyer.

Paul Gershlick, editor of Upload-IT, comments: 'This deal was structured in a different way so as to avoid tax. However, the parties achieved an unexpected benefit: they avoided paying the estate agent's commission too. This shows the need for estate agents' (and other agents') contractual terms to be clearly and carefully drafted so that they don't get cut out of the picture and receive nothing for their efforts.'

Court of Appeal affirms necessity test for implied terms - Mediterranean Salvage v Seamar Trading, Court of Appeal...

Mediterranean Salvage chartered its ship to Seamar Trading. During loading at Chekka, the ship was damaged due to hidden underwater projection at the loading berth. The loading berth had been nominated by Seamar Trading. Mediterranean Salvage claimed that a term should be implied into the contract that the charterers had to nominate a safe berth. Seamar Trading argued that the loss should fall where it lay and the parties should have specified something in the contract if they wanted to address the safety of the berth. The matter came down to whether a term should have been implied into the contract. The Court of Appeal said, in the particular circumstances of this case, a term should not be implied into the contract as to the safety of the berth.

The Court then went on to explain the legal position of implied terms generally. Referring to a recent Privy Council case (of Attorney General of Belize v Belize Telecom) in which there seemed to be doubt thrown on the traditional tests under English law for implied terms, the Court of Appeal re-affirmed and pulled together the old case law. It said that a distinction should be drawn between necessity and reasonableness. A term should not be implied merely because it is reasonable to do so. The test is one of necessity: is the implied term necessary to make the contract work? A term can only be implied if necessary in the business sense to give efficacy to the contract.

High Court gives wide protection to 'satisfactory quality' and 'fitness for purpose' provisions of sale of goods laws – Webster v JG Pears, and Omega Proteins, and Northern Counties Meat, High Court...

This case concerned the contract for Omega's sale of animal by-products to Pears. Pears claimed that the products had to be of category 3 standard rather than category 1 standard and Omega had breached the contract by supplying only to the category 1 standard. The High Court agreed with Pears. There was a breach of an express term of the contract.

Although the High Court could have stopped there, it went on to examine other arguments made by Pears in the alternative. Under sale of goods legislation, there were implied terms that the goods had to be of satisfactory quality and fit for any particular purpose known to Omega. Again, the High Court agreed with Pears on these issues. The Court explained that when determining whether goods were of satisfactory quality, you must look at what a reasonable person would have considered satisfactory in all the relevant circumstances. The list of items in the statute to be considered – fitness for all common purposes, appearance and finish, freedom from minor defects, safety, and durability - was not an exhaustive list. The move from

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'merchantable quality' in the old legislation to 'satisfactory quality' was intended to strengthen the standards for the customer's benefit. As to the fitness for a particular made known purpose term, Omega's argument - that its general knowledge of Pears' business did not meet the requirement that Pears had made known a specific purpose – failed.

The High Court's pronouncements on these implied terms issues under sale of goods laws are not binding on future decisions, as the Court had already made its mind up on the breach of the express term of contract. However, the comments are seen as persuasive and likely to be followed in future court cases.

Courts have a duty to decide whether a term is unfair in consumer contracts whether or not consumers ask the court to rule on that issue – Pannon v Gyorfi, European Court of Justice...

A Hungarian consumer entered into a mobile phone contract with Pannon. The terms of that contract provided that the court in Pannon's locality - some 275 km away from where the consumer lived - would have exclusive jurisdiction over any disputes. Pannon started legal action against the consumer in its local court. The Hungarian court asked the European Court of Justice whether it could consider the term as being unfair under the Unfair Terms Directive, even though the consumer had not raised the issue. The Unfair Terms Directive has been implemented into national laws across the EU; for example, in English law it has been brought into force as the Unfair Terms in Consumer Contracts Regulations 1999. As the name implies, the aim of the law is to protect consumers against unfair terms introduced by businesses in consumer contracts. The Directive contains a non-exhaustive list of terms which may be regarded as unfair; one is hindering a consumer's right to take legal action or exercise any other legal remedy.

The ECJ said that the court not only had a right, but actually a positive obligation, to consider the Directive, whether or not it has been argued by the consumer in the case. The whole rationale of the law was to protect consumers from being in a weak position, so it would be absurd to say that consumers would not be protected unless they fully argue the legal position. As to whether an exclusive jurisdiction clause which was some distance away from the consumer was unfair, this was a matter for the national court (in this case, the Hungarian court) to rule.

Lack of certainty of terms meant no contract was made for summer school accommodation – University of Plymouth v European Language Centre, Court of Appeal...

ELC sold summer school places for language courses. It had agreed with the University in seven annual written contracts for the University to provide accommodation for the school. The contracts followed a standard format showing the parties' intentions to continue their relationship for the following season. In 2005, the University contacted ELC to say that the number of rooms for 2006 would be substantially reduced due to site maintenance. ELC said that was not acceptable. In response, the University stressed that that was the position and ELC should either indicate that the available number was satisfactory to proceed or that ELC should make alternative arrangements for the 2006 season. ELC owed money for the 2005 season and it claimed that the money should be off-set against the University's alleged breach of contract for the 2006 season.

However, the Court of Appeal said that there was no breach of contract, as the contract for the 2006 season had not been formed. The parties always set out details in a written contract. However, the detail was lacking for the 2006 season. There was no clear offer and acceptance between the parties, so there was no contract.

Parliament committee opposes harmonised EU contract law...

The European Union Committee of the House of Lords has published a report rejecting a proposal to have a harmonised form of contract law at EU level. In December 2007, the European Commission published a draft Common Frame of Reference for European contract law as part of the Commission's plan to make European contract law more coherent. That Frame of Reference was very much a first step in a long potential road towards creating a uniform contract law basis across the EU. The House of Lords Committee said it believed that harmonisation would not be a good idea. It stated that there were major differences between English law and the proposed draft laws, such as the concept of contract, pre-contract negotiations and the rules of mistake. The Committee opposed use of the Frame of Reference as a harmonised law, an optional instrument or a set of standard terms and conditions. The one possibility that the Committee did not rule out was using the Frame of Reference as a toolbox for European legislators to draw upon where applicable with new legislation. However, overall, the Committee was strongly against the EU having an interventionist approach to contract law. Its view was that legislation for contract law tended to make things over-regulated anyway. Intervention undermined the benefits for contracting parties to have freedom of choice.

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Copyright and Database Rights

BSA launches two month campaign against software piracy in London...

The Business Software Alliance - a group representing leading software licensors which collects underpaid licence fees on its members' behalves – has launched a two month campaign against software piracy in London. The BSA has written to more than 1,000 businesses in London asking them to complete a software audit. It has carried out similar initiatives in Glasgow and Manchester, but the BSA claims that London is responsible for more reports of software piracy than anywhere else in the UK. One in five pieces of software is used illegally in London and the BSA is already investigating several businesses there. Unlicensed software often arises as a result of businesses neglecting their licensing obligations and how much they should pay for permitted use, particularly after a period of growth in the business. In the current economic climate, businesses cannot afford to be complacent in keeping software licences up to date and legal, the BSA says. The BSA is seeking to educate businesses on how they may manage their software better to help them save money and avoid costly legal action in the future.

UK government favours 'technical solutions' to 'three strikes' piracy law...

The UK government appears to have put a lid on the possibility of a 'three strikes law' to tackle illegal unauthorised peer-to-peer file-sharing of copyright content – at least for now. The 'three strikes law' – so called because it would involve Internet service providers terminating persistent net pirates' Internet connections if they ignored two official warning letters – does not now appear to be the government's preferred option. The final Digital Britain report had been expected to back this approach championed by the music industry, but a spokesman for the Department of Culture, Media and Sport said that the government was not in favour given that Internet access was now seen as valuable as other utilities such as water and electricity. The government is instead looking to build on the existing Memorandum of Understanding signed by all the major Internet service providers last year to secure their commitment to work towards a significant reduction in the illegal sharing of music and the development of legal music services.

The Digital Britain report has expressed a desired reduction of online piracy rates by 70-80%. To achieve this, the government said it would consult with Ofcom on legislative steps to reduce copyright infringement. Under the plans, Ofcom would need to notify account holders that their accounts appeared to have been used for copyright infringement, and Ofcom would then make available anonymised data to enable serious repeat offenders to be identified so that rights owners could issue proceedings and go after persistent infringers. If the 70% reduction is not achieved within a year, a number of technical measures will then be imposed on ISPs to block, cap bandwidth and filter content.

Author of *The Catcher In The Rye* sues over sequel...

JD Salinger - the 90 year old author of *The Catcher In The Rye* - has filed a law suit in the US claiming that a new book called '60 Years Later: Coming Through the Rye' infringes his copyright in the original novel and in its protagonist Holden Caulfield. The new book, written by John David California, follows a similar thread to the original. It charts Caulfield's journey as he leaves a retirement home (a prep school in the original) and explores New York and his own state of mind. JD Salinger's suit claims that he has always resisted any requests for rights to produce a film or create a sequel to *The Catcher In The Rye*. A quote from the author states: 'There's no more to Holden Caulfield. Read the book again. It's all there. Holden Caulfield is only a frozen moment in time.' JD Salinger claims that the right to create any derivative works or to use the character of Holden Caulfield is the right of JD Salinger and his alone. His law suit alleges that the new creation 'is a rip-off pure and simple'. The new book was due to be published in the US in September and is already on sale in the UK.

Campaign encouraging employees to report software piracy receives over 500 enquiries in first month...

The Federation Against Software Theft has confirmed that it has received over 500 enquiries during the first month of its campaign to encourage employees to report employers who use illegal software. FAST wants to raise awareness about the Public Interest Disclosure Act 1998, which it claims will protect employees from reprisals, to encourage more whistleblowers to report their employers online. The 1998 Act offers a high level protection against victimisation to employees who report wrongdoing internally or to a regulator. However, views differ as to whether the courts would agree that FAST is a regulator. The aim of the campaign is to scare businesses who may be committing an offence by deliberately installing illegal copies of software and in the process taking revenue from developers and workers in the creative industries.

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Cybercrime/Security

Innocent web sites targeted by aggressive malware attacks...

Innocent web sites are being targeted by cybercriminals who are subjecting them to aggressive malware attacks. An estimated 10 million plus web pages are infected every year and as many as 80% of infected web sites hosting malicious software are legitimate. According to Dasient, a web security business founded by ex-Google engineers, the threat to legitimate web sites of a malware attack has risen as more people create their own web sites and blogs without proper built-in security protocols. In addition, Dasient points to the complexity of today's web with richer functionality, third party widgets, video and new sources of content (such as user generated content) as a contributor to the increased vulnerability and attack surface of web pages.

Often, Internet users are unaware that they have opened an infected page and downloaded malware. However, web browsers such as Google, Yahoo and Firefox track infected sites and restrict access by 'blacklisting' them. Users are informed by a pop-up message known as the 'red screen of death', warning of the dangers of visiting a blacklisted site. Blacklisting can damage the reputation of a web site and have a serious impact on the turnover of a business. Dasient, which has developed a web-based anti-malware service that prevents blacklisting, has reported that some of its customers have lost thousands of dollars and others have reported a drop in traffic to their site by 95%-98% as a result of being blacklisted.

No obscenity over disgusting Girls Aloud blog because web site had been kept quiet...

A man has been cleared of obscenity despite writing a disgusting Girls Aloud blog in which he imagined kidnapping and murdering the famous pop group singers. His defence to the prosecution under the Obscene Publications Act – that the web site was not easily accessible on the web and could only be found by looking for specific material – succeeded, and the prosecution did not offer sufficient evidence to Newcastle Crown Court. The blog had been brought to the police's attention by the Internet Watch Foundation, which monitors potentially obscene material. All was not well for the poster, however, as he lost his civil service job following the interest. The employer decided he was not 'Untouchable', as he was left wondering 'Why do it?'

Data Protection/Privacy/Confidentiality

Amicus forced to give undertaking for data protection breaches by sub-contractor...

Amicus Legal Ltd has been found to breach the Data Protection Act 1998, after a laptop containing personal data relating to 100,000 customers was stolen. The laptop had not been encrypted. Despite the fact that the laptop was owned by a consultant, the Information Commissioner's Office – the regulator in charge of enforcing UK data protection law – threw the book at Amicus and required it to sign a formal undertaking promising to take reasonable measures to keep personal information secure in future. For example, it had to agree that all portable and mobile devices would be encrypted. The ICO said that this case was particularly serious because of the number of people involved and the fact that it involved sensitive information relating to legal advice. Failure to comply with the formal undertaking could lead to action being taken against Amicus in the courts.

Paul Gershlick, editor of Upload-IT, comments: 'Organisations often don't realise the extent to which they're responsible for data which is dealt with by sub-contractors. When you enter an agreement with a self-employed consultant, a web site host, a courier, a business process outsourcing service provider or anyone else who helps you with some aspect of your business, your organisation – rather than the service provider – is considered to be the data controller and on the hook. Data protection law requires you to have a contract with the service provider in which you make clear the security obligations which the service provider needs to take. Having a clear written contract is a good way of dealing with the data protection liability. It could also mean that if the service provider doesn't do what they're supposed to do you could terminate the contract rather than potentially being exposed for wrongfully terminating the contract or being left without a remedy.'

Bloggers beware: you can't hide behind a cloak of anonymity – The Author of a Blog v Times Newspapers, High Court...

'Night Jack' – the pseudonym used by a serving detective constable for writing his blog – has lost his case in which he sought to restrain *The Times* newspaper from revealing his identity. Night Jack had written about a number of social and political issues relating to the police and justice. *The Times* had not been told his identity in breach of confidence, but had deduced it.

The High Court rejected his application on the basis that there was no breach of any duty of confidentiality in this case, and it did not qualify as information in respect of which the author had a reasonable expectation of privacy. Crucially, the judge ruled that

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blogging was essentially a public, rather than private, activity. Bloggers often took steps to disguise their authorship, but it was a step too far to say that those people could legitimately expect others to be prohibited at law from deducing their identity.

In any event, the High Court added that even if the author had a right of confidentiality, it was outweighed in this case by a contrary public interest in revealing his identity. The author's opinions were strong and controversial. Communicating details of police operations meant that the author risked disciplinary action. Wrong-doing by a public servant was something which the press could legitimately draw to people's attentions. In addition, since his comments were very political and critical, the public should have the right to receive information about the author so that they could assess the weight and authority to be attached to them. It was not the court's remit to protect police officers who were acting in breach of police regulations from coming to the attention of their superiors.

Information contained in invoices is confidential, rules High Court - JN Dairies v (1) Johal Dairies, (2) Singh, High Court...

The High Court has ruled that information contained in invoices was confidential so as to enable JN Dairies ('JND') to bring an action for breach of confidence against Johal Dairies and Mr Singh. JND and Johal were both wholesale dairy companies whose customer base were small shops and independent supermarkets. Mr Singh worked as a driver for JND delivering products to customers daily and distributing invoices weekly. Two days after Mr Singh stopped working for JND, he entered its premises and took invoices that had been left ready for the drivers. He then handed those invoices to a director of Johal and visited the customers on his old round to persuade them to transfer their business to Johal.

The High Court found that Johal had made use of the invoices to approach and negotiate with JND's customers. On the evidence, the information contained within the invoices was found to have considerable commercial value, and this was demonstrated by the fact that Johal had paid Mr Singh £40,000 for it. There was fierce competition between the parties and both took steps to keep the information in their invoices confidential. Rather than liken the case to others relating to the enforcement of post-termination express covenants implied into employment contracts (which would require the content of the documents to satisfy a more stringent test of confidentiality), the High Court applied a three step test to determine whether the invoices were protected by the law of confidential information. For a breach of confidential information:

- it must be confidential in nature (that is, not in the public domain);
- it must be disclosed in circumstances importing an obligation of confidence; and
- there must have been a breach of that confidence by the person receiving the information to the detriment of the person imparting it.

The High Court found that information about quantities of goods bought by a particular customer and the prices charged had the necessary degree of confidentiality. Although Mr Singh had stolen the information, and therefore it was artificial to say that information has been disclosed to him, the judge was satisfied that a duty of confidentiality was imposed on both Mr Singh and Johal. The use of the information had been unauthorised and had resulted in the loss by JND of some of its customers. On this basis, the High Court ruled that there was an actionable breach of confidence.

'UK's most trusted worldwide express carrier' exposes customer data online...

Parcelforce Worldwide, which advertises itself as the UK's most trusted worldwide express carrier, inadvertently exposed customers' personal data on its web site after work was carried out to its computer system. The error allowed users to access names, postcodes and signatures of recipients through its mail tracing service. Parcelforce Worldwide, which is part of the Royal Mail Group, provides customers with a reference number to allow them to track the progress of the delivery or their parcel. BBC News found that when it entered reference numbers into the 'track and trace' online facility it was shown a series of unconnected deliveries. Easy access to that sort of data, which included people's names, addresses and signatures, would be valuable information to identity fraudsters.

Under the Data Protection Act, businesses which process personal information are under an obligation to make sure they have adequate safeguards in place to keep that information secure. The Information Commissioner's Office - the regulator in charge of enforcing UK data protection law - has confirmed that it will be conducting an investigation to establish how the security breach occurred and what steps Parcelforce will be taking to ensure it cannot happen again. The ICO has the power to serve an enforcement notice on a business that fails to safeguard personal information. Failure to comply with an enforcement notice could result in a prosecution and then possibly fines. However, even if fines are avoided, businesses often find that they have already suffered bad PR as a result of their careless data protection practices.

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General IP

Businesses must go to court every time they want to stop counterfeit or pirated goods...

HM Revenue & Customs has recently revised its procedures with immediate effect that stop pirated or counterfeit goods, in ways that increase the burden on trade mark and copyright rights holders. HMRC takes action when it believes that products which infringe a right holder's intellectual property rights are passing through UK borders. Until the end of June, its process was that it would detain potentially counterfeit goods and inform the right holder of that. The right holder would then have the right to examine the goods to see if they were infringing. If the right holder believed them to be infringing, it would submit a witness statement to HMRC, claiming that the goods were counterfeit. Following receipt of the right holder's statement, the owner of the goods needed to complain to court if it disputed the statement. The case would then be heard in front of a local Magistrates' Court to make a ruling. If the Magistrates' Court agreed with HMRC or if the owner of the goods did not dispute the finding, HMRC would destroy the allegedly infringing goods in its possession.

However, now, the burden of proof has been reversed. Instead of the goods owner having to prove it was authorised to supply its goods, it is the right holder who has to prove that the goods were unauthorised. HMRC will no longer seize items based on a witness statement from the right holder. Instead, HMRC will detain the allegedly infringing products pending a court ruling. The right holder has a very short window in which to go to court. The right holder must instigate court proceedings within 10 working days of receipt of the notification provided by HMRC (three working days for perishable goods). Alternatively, the right holder and the goods owner may come to an agreement for what to do within the same period. That 10 working day period may be extended up to a maximum of 10 further working days, ie 20 working days in total. Until resolution of the court proceedings or agreement has been reached, HMRC will continue to hold the goods under detention. If legal action has not been taken within 20 working days, though, or the right holder does not obtain a successful court judgment or it has not obtained an agreement to abandon the goods from the goods owner, then the goods would be released.

IT and Internet Use

Albums sold for just 29p on Amazon in on-line pricing blunder...

Consumers were delighted to discover that they were able to download albums by top music artists from Amazon for the bargain price of 29p after Amazon had made a pricing error on its web site. Prices for releases such as Kings of Leon's *'Because Of The Times'* and Lily Allen's *'It's Not Me'* were cut in error. The mistake was not rectified until about four hours after the cut was made by which time several consumer web sites had publicised the blunder allowing music fans to take advantage. Amazon later confirmed the pricing error on a small number of MP3 albums. It admitted that with the vast number of items available in its online store this type of error can occur despite its best efforts.

Paul Gershlick, editor of Upload-IT, comments: 'This case shows how important it is to get not only the terms and conditions right but also the pricing information. Amazon faced a similar situation in 2003, when it offered Hewlett Packard PCs for £7 instead of £275. Other high-profile e-tailers have also suffered for getting prices wrong, and then discovering it to their cost when, minutes later, they get inundated with bargain-hunters who have spread the word on the Internet quicker than the error can get corrected. Aside from the PR disaster, it can prove very costly if the contract terms and processes have not been dealt with correctly and the e-tailer is forced into lots of highly unprofitable contracts which it desperately wants to get out of.'

The Pirate Bay goes legal and is sold for £5m...

The Pirate Bay – the file-sharing site – has been sold by its founders for about £5m. Global Gaming Factory – the new owners – say that the site will become legitimate. The Pirate Bay was a high-profile facilitator of unauthorised peer-to-peer file-sharing. However, it suffered in a big way when it was held liable for the actions of its users, even though it did not host any infringing material itself. The then owners were fined and sent to jail. The new owners have said that it will keep the file-sharing model and users will be paid for this. It believes everyone will be happy because the copyright owner is paid, users get their files, the Internet service providers have less traffic and users sharing the song get something for their troubles too.

For more on the Swedish court case involving The Pirate Bay, click here: <http://www.upload-it.com/editArticle.aspx?ID=3237>.

Final Digital Britain report published...

The final Digital Britain report has been published. It arose out of an action plan commissioned by the government in 2008 on the future of the digital and communications industries. The plan was aimed at encouraging innovation, investment and quality in the digital communications sector. An interim report was published earlier in 2009. The final report contains the following:

- ◆ Government commitment to achieving universal Internet connection speeds of 2Mbps by 2012, with faster speeds of 40Mbps by 2017.

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- ◆ A £6 per year tax on all copper telephone and cable television lines to fund £150m of infrastructure developments per year so that everyone in the UK has access to broadband.
- ◆ Desired reduction of online piracy rates by 70-80%. To achieve this, the government will consult with Ofcom on legislative steps to reduce copyright infringement. Ofcom will need to notify account holders that their account appears to have been used for copyright infringement, and then make available anonymised data to enable serious repeat offenders to be identified so that rights owners can issue proceedings and go after persistent infringers. If the 70% reduction has not been achieved within a year, a number of technical measures will be imposed on Internet service providers to block, cap bandwidth and filter content. There is no reference to disconnecting offending file-sharers.
- ◆ The 20-year 3G mobile phone licences will be extended indefinitely to encourage investment.
- ◆ Radio will become all digital by 2015.

Misleading Advertising

ASA upholds complaint against advertiser who referred to a fictitious approvals body in a radio advert...

The Advertising Standards Authority has upheld a consumer complaint that a radio advert was misleading because it referred to a product being 'MPS-approved', in breach of the Radio Advertising Standards Code. By saying 'MPS-approved', the advert gave the impression that MPS was an official approval body, whereas in fact it was a term invented and used by the advertisers and stood for 'Midlands Price Squad'. The advert did not explain or suggest that MPS was not an official trade body or related to the advertiser. This ruling makes it clear that advertisers should be very careful before using names which may suggest that they have been approved by independent bodies when this is not the case.

ASA finds Ocado's price-matching claims to be untruthful...

The Advertising Standards Authority has ruled that price-matching claims made by Ocado, the online supermarket, failed to meet its rules on truthfulness when drawing comparisons with Tesco's web site. Tesco complained to the ASA after it had found that Ocado was more expensive than Tesco on 601 out of 3,811 products that Ocado claimed to price-match. Ocado's system of 'scraping' Tesco.com's web site once a week, often during the early hours of the morning, meant that Ocado's price claims were often inaccurate. Price changes made by Tesco during the course of a day could mean that Ocado's data was out of date within hours. Whilst the ASA acknowledged that Ocado had tried to implement a fair system and recognised the difficulties posed by Tesco's failure to include correct barcodes on some of its items, it was Ocado's responsibility to ensure all common products were appropriately checked and could be substantiated. The ASA concluded that Ocado's advertisements were likely to mislead consumers and told Ocado not to repeat its claims whilst operating under its current systems. The ASA did, however, indicate that Ocado's plans to introduce a time stamp as well as a date stamp on its comparisons would fix the problem of daily price changes resulting in inaccurate claims.

Advert promoting 'free laser eye surgery' lacked clarity, says ASA...

A competition advertised by Optical Express offering entrants the chance to 'win free laser eye surgery' was found to be lacking in clarity and likely to mislead participants. The advertisement failed to mention to participants that they would only be included in the draw if they booked a treatment with Optical Express and paid a booking fee. The booking fee was then refunded for the winner and depending on whether the treatment had already been paid for, the treatment cost was either free or also refunded. Optical Express argued that because the cost and booking fee were the same for all people reserving treatment whether or not they entered the competition, they were not charging for entry to the competition.

The Advertising Standards Authority disagreed. The entry requirements of booking surgery and incurring a booking fee were significant conditions which should have featured prominently in the adverts as they were likely to affect a consumer's interest in the promotion. It also emphasised that business should not confuse competitions – which requires participants to exercise skill or judgment – with prize draws which award prizes based on the laws of chance. The ASA concluded that the lack of clarity in the advert meant that it broke ASA rules on truthfulness and on the running of free offers and free trials.

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Misleading Selling

Solar water heating company told to improve trading claims...

Smart Energy (UK) Limited have given formal undertakings to the Office of Fair Trading to change their trading practices after the OFT accused the company of breaching consumer protection laws such as The Consumer Protection from Unfair Trading Regulations, which came into force in 2008. In particular, the company was told not to:

- ◆ Make unsubstantiated claims that consumers would recoup their costs through savings from the product.
- ◆ Give a misleading impression that the performance of the product would not be affected by weather conditions.
- ◆ Make false claims as to having ISO or other accreditation.
- ◆ Supply goods to consumers that did not comply with sale of goods laws.
- ◆ Fail to repair or replace faulty goods within a reasonable time.

Patents

Patent rights not lost if prototype on display to people not skilled in appreciating the relevant product – Folding Attic Stairs v Loft Stairs, High Court...

F sued L for allegedly infringing F's patented folding loft stairs. The issue here was that prior to applying for patent protection, F invited members of the public onto its premises, where they were able to see the product under development. One of the visitors was a press photographer, whose picture of the test unit appeared in the newspapers. The question was whether the invention was obvious considering that F had allowed people onto its premises other than under a duty of confidentiality, where they could see the product under development.

The High Court said F's patent stood. If the test unit had been in a public place where anyone could have examined it, its design would have been considered to have been made available to the public. However, it was not in a public place. It was only available for viewing by two members of the public: a minister and photographer. They were not skilled in the art or interested in folding attic stairs. If an officious person had stopped them on the way out and asked them to describe the unit, on a balance of probabilities, they were not likely to have been able to describe the key features.

Trade Marks and Passing Off

All not smelling rosy for cheap copycat perfumes, as L'Oréal battle to Europe was really worth it – L'Oréal v Bellure, European Court of Justice...

L'Oréal brought an action for trade mark infringement against the defendant who sold look-alike/smell-alike perfumes - perfumes that looked and smelt like some of L'Oréal's established fine fragrance brands. This case was not about the fact that the perfumes smelt similar but about the get-up of the infringing articles. The High Court initially ruled that two replica perfumes had sufficiently similar packaging to L'Oréal's registered trade marks to create an association between the copy and the real thing in consumers' minds - so that the defendants had taken unfair advantage of the character and reputation of L'Oréal's registered marks and L'Oréal's activities in maintaining and enhancing its perfume ranges. This was despite the fact that there had been no confusion in the minds of the customers. The High Court had also ruled that the defendants' use of the registered marks on lists which compared the prices of their products to the original brands amounted to an infringement of trade marks, as the use had not been in accordance with honest commercial practices. The defendants appealed, and the Court of Appeal referred questions to the European Court of Justice to answer so as to interpret EU trade mark law. The ECJ has now come down in L'Oréal's favour.

The ECJ has ruled that unfair advantage could be taken of a mark even where there was no confusion or detriment to the trade mark. It was enough that a copycat sought to obtain an advantage by riding onto the coat-tails of the mark with a reputation in order to benefit from the other mark's prestige - which had been acquired through careful and costly marketing - but without having to pay for it. Trade mark infringement could take place where there is a similarity between the marks, such that the relevant part of the public establishes a link between the two marks, and there is dilution, tarnishment or free-riding. Free-riding meant that, for there to be infringement, the copied brand did not even need to suffer. It was for the national courts to make a global assessment, taking account of the strength of the mark's reputation and distinctiveness, and the similarity of marks and goods/services.

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The ECJ also said that using comparison lists could constitute comparative advertising. Comparative advertising could not be stopped by a trade mark owner if it satisfied the list of conditions in Article 3a(1) of the Comparative Advertising Directive. However, that list included not taking unfair advantage of the reputation of a trade mark, and not presenting goods or services as imitations of goods or services bearing a protected trade mark. The ECJ said that the Directive prevented an advertiser from stating or suggesting in comparative advertising that the product or service was an imitation or replica of something with a well-known mark. That would take unfair advantage of the reputation of that mark. The ECJ said use of a competitor's trade mark in comparative advertising was allowed where the comparison objectively highlighted differences and did not give rise to unfair competition.

As Paul Gershlick, editor of Upload-IT, recently told *The Times*: 'Some businesses try to promote cheaper imitations simply by comparing them to more famous brands and creating an association in the minds of consumers. They seek to benefit by saying, 'Our product is quite like theirs'. The highest court in Europe has sent a clear message to those businesses that they cannot expect a free ride for their own commercial advantage and benefit from the huge investment made over many years by the famous brands.' To read *The Times* report in full, click here: <http://timesonline.typepad.com/law/2009/06/european-judges-back-loreal-in-smellalike-perfume-case.html>.

Last minute case win for popular bargain web site – Last Minute Network v OHIM, European Court of First Instance...

Last Minute Network Ltd ('LM Network') applied to register the word LASTMINUTE.COM as a European Community trade mark in 2000 for classes 39 and 42 of the trade marks register. Its application failed due to lacking distinctive character. Last Minute Tour ('LM Tour') applied to register a more distinctive figurative sign as a European Community trade mark in classes 16, 39 and 42. LM Network opposed LM Tour's application, but the application was dismissed and the figurative design was registered. LM Network then applied for the registration of the figurative design to be declared invalid due to LM Network's prior acquired UK rights in the unregistered trade mark LASTMINUTE.COM. OHIM (the European Community Trade Mark Office) upheld LM Network's application for cancellation in classes 39 and 42 when it decided that LM Network had built up considerable goodwill for its sign in the UK, but the cancellation request was rejected for class 16. On appeal, OHIM's Board of Appeal reversed the decision and sided totally with LM Tour.

The European Court of First Instance has now annulled that decision and sent the matter back to OHIM to re-examine LM Network's application for a declaration of invalidity. When looking at LM Network's unregistered trade mark rights, the European bodies should have considered all elements of passing off at English law properly. When considering whether the opposition could succeed, you should look at the reputation of the mark cited in the opposition as at the date when the application to register the trade mark was filed, as it was possible for a mark that had once been considered to be lacking distinctiveness to have later acquired a reputation.

007 has No Dr No licence to trade mark – Danjaq v OHIM, European Court of First Instance...

Danjaq – the owner of the rights in the James Bond film, Dr No - has failed to prevent Mission Productions from registering a European Community trade mark for the term 'DR NO' for bags, clothing, food and drink. OHIM (the European Community Trade Marks Office) rejected Danjaq's opposition and this decision was upheld by the European Court of First Instance. The CFI said that the purpose of the trade mark was to identify the commercial original of goods so that consumers knew what they were buying. The Dr No film title represented a cultural rather than commercial function. 'Dr No' helped to distinguish that particular film from other James Bond films. In contrast, the opponent's commercial rights were protected by other signs such as '007' and 'James Bond'.

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If you would like further information on any of the items in this month's newsletter or anything else related to Commercial/IP/IT issues, please contact:

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