

UPLOAD-IT - 1 MAY 2008

COMPETITION LAW

- ***OFT suffers humiliating climb down and for once it is the one paying damages, rather than receiving fines, for defaming Morrisons...***

The Office of Fair Trading, the UK's competition law regulator, has been forced into a humiliating apology and a defamation settlement payment of £100,000 to Wm Morrison after the OFT had published a false statement about the supermarket's participation in an alleged cartel. Last September, the OFT had issued a strongly worded press release in which it had accused supermarkets of ripping off shoppers by £270m. The OFT inferred that Wm Morrison had been subject to a provisional finding that it had infringed the Chapter I prohibition of the Competition Act 1998 by fixing prices of butter and cheese in 2002 to 2003. In fact, Wm Morrison was only being investigated for allegations in respect of a milk cartel. In addition, the OFT had wrongfully stated that the supermarket chain had previously been warned by the OFT against anti-competitive behaviour.

Due to other statements that the OFT had made in September, the OFT has also been forced to admit that it is keeping an open mind about the outcome of the investigation, as the accused supermarkets have claimed that the OFT's statement shows that it has already made up its mind prematurely.

In a bid to benefit from the leniency provisions and obtain lower fines, some supermarkets have admitted liability in the investigation into the supermarket's alleged cartel activity in the dairy market. However, other supermarkets have vowed to fight on.

The OFT has been under attack in some quarters for pursuing a 'populist agenda' since John Fingleton became its chief executive in 2005.

- ***OFT issues statement of objections to over 100 construction companies over alleged collusion in tenders...***

The Office of Fair Trading, the UK's competition law regulator, has issued a statement of objections to over 100 construction companies, including Balfour Beatty, Connaught and other big players down to small local businesses. The OFT alleges that they have been colluding to agree a practice of 'cover pricing'. This is where a construction company does not wish to spend money on a particular tender but it wants to show willing to the person inviting the bid so that it does not get left out of future bids. However, cover pricing is anti-competitive as it involves buyers receiving artificially high bids instead of truly competitive prices. Some of the successful tenderers even paid a sweetener to compensate those businesses that had agreed not to bid below them. The OFT says mere cover pricing is a breach of the Chapter I Prohibition of the Competition Act 1998, but the compensation payments were even more serious bid rigging.

- ***OFT says no smoke without fire as it clamps down on alleged anti-competitive behaviour between retailers and tobacco companies...***

The Office of Fair Trading, the UK's competition law regulator, has issued a statement of objections to 11 retailers (including Tesco, Sainsbury, Asda, Morrisons, Sommerfield, Shell and the Co-Op) and two tobacco companies (Imperial Tobacco

and Gallaher) over alleged indirect sharing of proposed future retail prices between the competitors in 2001 to 2003. Imperial Tobacco's brands include Embassy and Lambert & Butler; while Gallaher is the company behind Benson & Hedges and Silk Cut. The OFT believes that there was indirect sharing of information using a vertically related retailer or manufacturer as the conduit to pass on the information. As a result of the alleged breach of the Chapter I Prohibition of the Competition Act 1998, the OFT claims that smokers have been overcharged for their cigarettes. Tesco has been vocal in contesting the charges. Prices are similar for the cigarettes in the supermarkets, but the profit margins are very slim for wholesalers and retailers.

CONTRACTS

- ***Court of Appeal left cold on interfering with liability clause - Regus v Epcot, Court of Appeal...***

Regus was a leading provider of serviced office accommodation. Epcot was a small but growing IT training provider. Epcot complained that the air conditioning in the premises did not work properly and its staff became unwell as a result. This escalated until Epcot withheld fees. Following Epcot's decision to withhold fees, Regus gave notice to suspend its services. Epcot then relocated to a site of one of Regus's competitors. Regus sued for about £30,000 for its fees. Epcot counterclaimed for losses of £626 million. Regus claimed that it was not in breach of contract but even if it was then it would be protected from the extent of Epcot's claims by the limitation of liability clause in Regus's standard terms and conditions.

The High Court ruled that Regus's attempt to limit liability was unreasonably wide and therefore unenforceable. It therefore struck out the entire liability clause. The Court said that the following paragraph was so wide that it left Epcot without any remedy at all:

"We will not in any circumstances have any liability for loss of business, loss of profits, loss of anticipated savings, loss of or damage to data, third party claims or any consequential loss. We strongly advise you to insure against all such potential loss, damage, expense or liability."

The Court of Appeal allowed Regus's appeal. The paragraph had not allowed no remedy at all. The primary measure of loss for breach of a services contract would be the diminution in value of the services promised. In the case of goods, this would be the difference between the value of the goods at the time of delivery to the buyer and the value that the buyer would have had if the warranty had been fulfilled. This primary measure of damages can be supplemented by any available extra claims for loss of profits or consequential losses.

The judge went on to say that the paragraph was not unreasonable because:

- ◆ Epcot's chief executive officer was an 'intelligent and experienced businessman'.
- ◆ Epcot's CEO had admitted that he was well aware of Regus's standard terms and conditions when he had entered into the contract.
- ◆ Epcot had used a similar exclusion of liability in its own business.
- ◆ Epcot had sought to renegotiate the contract terms 'frequently and energetically', but had not done so for the liability clause.
- ◆ Despite Regus being much bigger than Epcot, there had not been any real inequality of bargaining power. Regus had competitors and it was Epcot rather than Regus that had used a 'take it or leave it' tactic during contract negotiations.

- ◆ It seemed more appropriate for Regus's customers to take out insurance against loss of business than for Regus to do so.

The Court of Appeal went on to make clear that even if that paragraph would have been unreasonable, it could have been 'severed' from the rest of the liability clause, which would have been upheld.

Paul Gershlick, editor of Upload-IT, comments: 'This is one of those rare occasions when that has an impact on virtually every contract that businesses enter into. For that reason, this ruling is extremely important and should be looked at very closely.' Paul has recently had an article published on this case in the Society For Computers and Law. To go to the SCL's website and read more about Paul's review of this case, click here: <http://www.scl.org/editorial.asp?i=1822&r=2£0£0£0£0£0£1£0£1£>.

- **Round One to OFT and consumers as High Court says bank overdraft charges are potentially unfair - *OFT v Abbey National and others, High Court...***

Many of Britain's biggest banks have lost a test case as to whether some of their charges are potentially unfair. The High Court has ruled, following an application from the Office of Fair Trading, that the banks' charges for certain items fell to be assessed within the Unfair Terms in Consumer Contracts Regulations 1999, a law which allows standard business terms in contracts with consumers to be struck out if they cause a significant imbalance between the business's rights and the consumer's to the detriment of the consumer. The banks had argued that the fairness test cannot be used under the Regulations in relation to terms that relate to the adequacy of price in exchange for goods or services. However, the High Court said that the complained about charges were just part of the overall package of benefits to a bank in the context of the overall package of services supplied by the bank. Individual charges could therefore be challenged.

There were four categories of charges caught in this case:

- ◆ Unpaid items – which were charges for instructions that the bank does not honour because the customer does not have sufficient funds in his account.
- ◆ Paid items – as above, but where the bank honours the instruction.
- ◆ Overdraft excess charges – charges for a period during which an account is overdrawn where there is no overdraft facility or where the balance goes beyond an agreed overdraft limit.
- ◆ Guaranteed paid item charges – where a bank honours a cheque made under a cheque guarantee card but where the consumer does not have sufficient funds in his account.

The case did not decide whether the terms used by the banks were unfair: just whether the court had the right to decide whether the scope of terms complained about were unfair. This may only be part one of the battle: the banks are likely to appeal. To avoid a binding legal precedent, UK banks have already paid out an estimated £800m in out-of-court settlements to customers who have claimed back up to six years of overdraft charges.

- **High Court upholds 'take or pay' clause – *M & J Polymers v Imerys Minerals, High Court...***

The High Court has ruled that a 'take or pay' clause did not, on the facts of the case, infringe the rule against penalties. 'Take or pay' clauses in a contract are so called because they provide that a customer must pay for a minimum quantity of goods whether or not the customer actually orders the specified minimum quantity. This case was the first time that an English court has been called upon to consider whether such clauses are penalty clauses and therefore unenforceable.

The facts of the case were straightforward. M agreed to supply dispersants that conformed to minimum quality standards. I agreed to buy minimum quantities per month (the minimum purchase obligation) and pay for minimum quantities even if it had not ordered them (the 'take or pay' clause). I purported to terminate the contract for poor quality products. M said I had wrongfully terminated (which the High Court agreed with) and claimed under the 'take or pay' clause.

Siding with M, the High Court found that although the 'take or pay' clause could be subject to the law against penalties, on the facts of the case the clause:

- ◆ was commercially justifiable;
- ◆ did not amount to oppression;
- ◆ was negotiated freely and entered into between parties of comparable bargaining power who had a long standing relationship;
- ◆ did not have the predominant purpose of deterring a breach of contract (and so was not a punishment for a breach of contract); and
- ◆ did not amount to a provision which would act as a warning or a threat to compel the customer to order the minimum quantity.

Samantha Lloyd, assistant editor of Upload-IT, comments: 'Businesses should be aware of the risk that take or pay clauses may be considered a penalty and therefore unenforceable. When considering the inclusion of such a clause, parties should ensure that they can demonstrate that the provisions accord with the criteria which the courts considered important in enforcing the clause in this case.'

- ***Companies now have new method for executing deeds...***

With effect from 6 April, companies now have a new method of executing deeds. Until this change, the company could either affix its common seal (in accordance with its articles of association), have signatures of two directors or have signatures of a director and company secretary. Now - following the introduction of certain provisions of the Companies Act 2006 - depending on whether the company's articles of association allows it, it may be possible for companies to execute a deed by the signature of one director in the presence of a witness who attests the signature. This new method will be particularly useful for those companies who choose not to have a company secretary (and are not required to do so by their articles of association) but will also present benefits for private and public companies.

- ***More than one in two consumers receive unfair treatment from businesses in the last year...***

More than one in two consumers has suffered unfair treatment by a business in the past 12 months. Particular problem areas are in relation to telecommunications, domestic fuel and personal banking. However, only 64% of people who had difficulties with organisations took any action or made complaints and only 5% of consumers complain to Trading Standards or other complaint-handling bodies. Consumers are most likely to complain directly to companies without seeking advice from consumer bodies. These are the findings of a Office of Fair Trading ('OFT') survey of 1,000 consumers. The OFT estimates that British consumers are losing out to the tune of over £6 billion a year due to their unfair treatment by business. The OFT is concerned that a lack of consumer confidence in markets may make the markets work less well and could hurt the economy.

COPYRIGHT AND DATABASE RIGHTS

- ***BPI threatens legal action against Carphone Warehouse unless it participates in a scheme to monitor users' activity to prevent illegal file-sharing...***

The British Phonographic Industry ('BPI') – the body representing major UK recording labels - has reportedly threatened legal action against Carphone Warehouse unless it agrees to participate in a music-industry-promoted scheme to monitor and ban customers who take part in illegal peer-to-peer file sharing. Charles Dunstone - the chief executive of Talk Talk, which is one of the UK's biggest Internet service providers ('ISPs') and is owned by Carphone Warehouse - has rejected arguments that the company should monitor users' activities, stating that the proposed scheme was an intrusion into user privacy and that the music industry should be seeking to adapt to changes in technology to deal with this issue rather than threatening legal action against ISPs. Mr Dunstone described the request to monitor and ban as being akin to bus companies having to catch thieves just because they had ridden on their buses. A spokesman from BPI hit back citing Carphone Warehouse's 'persistent and unreasonable refusal to take any action to address illegal activity on its network' and commenting that it had written to Mr Dunstone reminding him of BPI's legal rights.

Upload-IT reported in April on the increasing international pressure for ISPs to take a role in policing customers' activity. For more on this article and other linked articles, please click here: <http://www.upload-it.com/editArticle.aspx?ID=2550>. The UK Government have indicated that unless ISPs and music industries can come to an agreement on how best to police such activities it will introduce laws to force such measures in the autumn.

- ***Organist turns 'A Whiter Shade of Pale' as lead singer of Procol Harum reclaims full royalty rights to 1960s hit – Brooker and Onward Music Ltd v Fisher, Court of Appeal...***

The lead singer of Procol Harum, Gary Brooker, has won his appeal against the High Court's decision to award Matthew Fisher 40 per cent of the royalties to the musical copyright in the classic hit 'A Whiter Shade of Pale'. Fisher, a classically trained musician, was a member of Procol Harum from 1967 to 1969. He had been recruited to contribute solo sections on the organ. Fisher's claim, which was first made in 2005, was that the organ part of the song was wholly his invention and that he was therefore joint owner of the copyright of the work and entitled to a share in the authorship of the overall work. Brooker had composed the music and Onward Music Ltd had acquired the copyright to the words and music of the song in 1967.

The High Court had ruled that Fisher was co-author of the music, he was the joint owner of the musical copyright in the work, his share was assessed at 40 per cent, and his licence for Onward Music to exploit the work had been revoked in 2005 when he staked his claim. He had therefore been entitled to royalties from that point onwards.

Brooker and Onward Music Ltd appealed. The Court of Appeal granted the appeal and ruled that, although the High Court was entitled to find that Fisher had made a creative contribution to the work and to grant a declaration of co-authorship, it was wrong to allow him of the earnings from the musical copyright. The Court of Appeal said that Fisher was guilty of excessive and inexcusable delay (38 years) in bringing the claim and this made it 'unconscionable and inequitable for him to seek to exercise control over the commercial exploitation of the copyright in the work'.

- ***Transfer of ownership required to amount to distribution of copyright work under Copyright Directive – Peek v Cassina, European Court of Justice...***

The European Court of Justice ('ECJ') has ruled that, under the Copyright Directive, a transfer of ownership is required to constitute a distribution of a copyright work to the public. The case was referred to the ECJ by the German courts after an Italian company (Cassina) which held the exclusive right to manufacture and sell Le Corbusier designed furniture, brought a claim against a German clothes retailer (Peek). Peek had Le Corbusier designed furniture – which it had acquired from a different Italian manufacturer - in rest areas for customers and in one of its display windows. Cassina brought proceedings against Peek seeking damages, an injunction and information concerning the source of the items of furniture. The German Federal Court of Justice referred questions to the ECJ.

The Copyright Directive provides that:

- ◆ Member States of the EU must provide for copyright authors the exclusive right to authorise or prohibit any form of distribution of their works to the public; and
- ◆ that distribution right in the EU is only 'exhausted' (or extinguished) if the first sale or other transfer of ownership in the EU is made by the copyright owner or with his consent.

The ECJ ruled that neither granting to the public the right to use reproductions of a work protected by copyright or exhibiting to the public those reproductions could constitute a distribution. In the opinion of the ECJ, a distribution only occurred where there was a transfer of ownership.

CYBERCRIME/SECURITY

- ***Bargain bundles of bank account details sold at cyber-crime supermarkets for just a few pounds each...***

Personal details packaged up in bargain bundles are being sold via instant message groups or web forums (so-called cyber-crime supermarkets) at dirt cheap prices, according to Symantec's latest Internet Security Threat Report. In the final half of 2007, 50 credit card numbers were offered for sale at just £20 (£0.40 each) and 500 credit card numbers for £100 (£0.20 each). UK bank account details - on sale for as little as £5 - were found to be the most advertised items on black market forums used to trade stolen information. Whilst details of accounts belonging to high-value businesses attract higher prices, there has been an increase in targeted attacks on consumers. The report said that social networking sites are also proving a popular resource for criminals as users of such sites are less careful when it comes to protecting their personal data.

- ***Over one million computer viruses in circulation...***

Over one million malicious programs made up of novel threats and malicious code threats have been detected by Symantec, the security firm. Symantec has reported that two thirds of all malicious code threats currently detected were created in 2007 with the vast majority being aimed at PCs running Microsoft Windows. Cyber criminals use malware (malicious software) to get past anti-virus programs which search for characteristics that they have already seen. The increase in malicious code has been put down partly to the criminal underground becoming more professional and creating malware for money rather than fun.

DATA PROTECTION/PRIVACY/CONFIDENTIALITY

- ***London Councils admit to losing personal data in pubs...***

Several breaches of data protection by London Borough Councils have occurred while the people holding the documents were in pubs, the BBC has reported. The BBC's report included cases where sensitive information about children in care had been stolen from a youth worker in a bar and where court reports and a review of a statement of special educational needs were stolen from a social worker's bag while in a pub. More than half of the 23 London Councils which responded to a freedom of information request admitted that data had been lost, stolen or inadvertently disclosed.

- ***Government turnaround on jail terms for data thieves and traders...***

The Government has put on hold provisions in the draft Criminal Justice and Immigration Bill that would have seen criminals who steal or sell personal data face up to two years in prison. The amendment to the Bill means that the Justice Secretary would need to activate that section in the future to enable the courts to hand out custodial sentences. The Information Commissioner's Office ('ICO') – the Regulator in charge of enforcing data protection law in the UK - backed the proposed jail sentences. The ICO has been left disappointed with the change, believing that the Government's reliance on fines was unlikely to be successful in deterring criminals engaging in the trading of personal information. It says that the prospect of fines had not acted as a sufficient deterrent so far. The ICO produced a report in 2006 called '*What Price Privacy Now?*' in which it highlighted how just one investigation on an investigations agency had revealed that most renowned national newspapers had engaged in illegal buying of personal data.

- ***Injunction to prohibit publication of Max Mosley videos refused on grounds that material would still be accessible on the web – Mosley v News Group Newspapers, High Court...***

A High Court judge has refused to grant an injunction preventing the *News of the World* from showing video footage of Max Mosley - the head of Formula 1 motor-racing - with five alleged prostitutes with alleged Nazi undertones, because it would make very little practical difference and would be a futile gesture given that the video was so widely available on the Internet. The judge's opinion was that 'Mr Mosley no longer has any reasonable expectation of privacy in respect of this now widely familiar material or that, even if he has, it has entered the public domain to the extent that there is, in practical terms, no longer anything which the law can protect. The dam has effectively burst.'

Under the Human Rights Act 1998, everyone has a right to respect for his private and family life and also the right to freedom of expression. Where both of these rights are engaged the court must balance these rights taking account of the justifications for interfering in each right and the issue of proportionality. Despite the material being intrusive and demeaning and there being no legitimate public interest in its further publication, the judge was of the opinion that granting the injunction would be futile. However, Mr Mosley is still pursuing a legal claim against the newspaper for damages due to alleged breach of his privacy rights.

DATA RETENTION

- ***Search engine providers should not keep details of people's searches for more than 6 months and they have no obligation to keep that data under the Data Retention Directive...***

Search engine providers such as Google must not keep logs of people's searches for more than six months – and even that might not be justifiable under the Data Protection Directive (which forms the basis of the UK's Data Protection Act). That is according to a report from the Article 29 Working Party, a group of data protection enforcement officers across the EU countries. The Working Party stated that details of users' Internet Protocol addresses (or numbers assigned to individual machines) COULD be deemed to be personal data and therefore caught by the Data Protection Directive. Personal data should not be kept for longer than is necessary. The Working Party could see no justification for why search engine providers kept records of people's searches for longer than six months, and even that period may be unjustifiable.

Search engine providers had cited the need to comply with a conflicting Directive - the Data Retention Directive - as the reason for them retaining logs of people's searches for up to 18-24 months. They said the Data Retention Directive required search engine providers to keep search engine logs in case law enforcement agencies need the data to detect or prevent crime. However, the Working Party has dismissed that argument and stated that the Data Retention Directive does not apply to search engine providers as search queries relate to content – which is excluded from the Data Retention Directive – rather than traffic data, such as names and dates of communications. Accordingly, since search engine providers did not need to comply with the Data Retention Directive, they had no excuse for breach of data protection law.

The report also said that EU Data Protection law applied to the processing of personal data by search engine operators, even if their headquarters are located outside of the European Economic Area if they provide some or all of their services (including the processing of personal data) through establishments inside the EEA. The Working Party went on to criticise search engines for not providing fair processing information with details of the data that they collect and what they do with it.

DEFAMATION

- ***Record damages agreed for Internet libel...***

Pallion and its chief executive have agreed to pay record damages of £119,000 to a business rival after being accused of posting a series of defamatory comments on a website called "Dads Place". The anonymous group responsible for the website took extensive steps to publicise the website and its other publications including newsletters and leaflets which made a barrage of unfounded allegations of corruption and nepotism and the promotion of female employees in exchange for sexual favours against Gentoo (a rival social housing company), its employees and in particular Mr Walls. As a result, the website became a talking point in Sunderland (where the businesses were based) and in the housing industry, and Gentoo and Mr Walls suffered substantial damage to their reputations.

The settlement is believed to be the highest ever payout for online libel in the UK to date. Pallion and its chief executive have also been ordered to pay the substantial costs of the proceedings which are expected to run into hundreds of thousands of pounds. This case is a welcomed recognition that online libel can be very damaging and serious and may act as a warning to those considering seeking to hide behind

the perceived anonymity of the Internet to spread lies. Despite extensive efforts to hide, in this case the posters were tracked down and forced to pay.

DESIGN RIGHTS

- ***Same design for another type of product can still constitute 'prior art' and stop a similar design being protected for a different product –***

Green Lane v PMS International, Court of Appeal...

GL had registered as a European Community Registered Design spiky plastic balls used in tumble driers. PMS had sold similar shaped balls as massage balls before GL's registered design application. PMS later chose to sell the balls for other purposes including as laundry balls. GL claimed this infringed its registered design right. However, PMS successfully argued in the High Court and now in the Court of Appeal that GL's designs were neither new nor of individual character as they were the same as in PMS's product.

Whether something was new or of individual character involved considering any earlier designs that had been made available to the public, and it was not limited to the sector for which goods were registered. For example, if someone registered a design for a car, the same design could be prevented from use for a toy or a cake. There would be an exception, though, if the prior art was so obscure in the sector from which it came.

DOMAIN NAMES

- ***Registrant of 'sucks' domain name with similar name to energy drink producer told his excuse of using it for a protest site was a load of 'bull'...***

A Carl Gamel registered a domain name 'redbullsucks.com'. Red Bull complained to a WIPO panel under the UDRP procedure that the name was confusingly similar to a name in which it owned trade mark rights, the registrant had no legitimate rights in the domain name and it had been registered and used in bad faith. In reply, Mr Gamel argued that he was using it as a protest site to warn of the dangers of energy drinks. However, the WIPO panel was not persuaded by his arguments and ordered the transfer of the domain name to Red Bull. The panel said that although so-called 'sucks' domain names were often used as legitimate freedom of speech complaint sites, here the evidence showed that Mr Gamel had used his site to promote a rival drink and so his use of the name was plainly to extort money from the trade mark owners. The WIPO panel clarified that confusingly similar did not have to mean that anyone was actually confused.

WIPO deals with top-level domain name disputes and is one of the accredited arbitration bodies that can hear domain name disputes under the UDRP procedure. The UDRP is the Uniform Domain Name Dispute Resolution Policy and it provides a quick arbitration procedure for disputes over top level domain names such as '.com'.

IT AND INTERNET USE

- ***Users must 'opt in' to Phorm (the new bespoke user ad system) says UK data protection regulator...***

The Information Commissioner Office ('ICO') – the Regulator in charge of enforcing data protection laws in the UK – has stated that it believes users must positively opt-in choose to receive Phorm, rather than them just receive the service by default. Phorm is the new system which gives web users customised advertising according to the websites which they visit and general online user habits. Phorm had hoped that it would be able to operate on an 'opt out' basis but the ICO have said that European laws demand that users must consent to their traffic data being used for 'value added services'. For more on the ad-targeting system and the controversy surrounding it, click here: <http://www.upload-it.com/editArticle.aspx?ID=2566>.

Despite the opt-out comments, the ICO was generally happy with Phorm's respect for people's data in a number of respects. The ICO has said that it would be keeping a close eye on Phorm and reviewing its opinion based on the experiences of users taking part in trials. So far, BT, Talk Talk and Virgin Media have agreed to take part in trials to roll out Phorm.

- ***Virgin Media set to challenge net neutrality...***

Virgin Media, the second biggest UK Internet service provider, is in talks with content producers and video games publishers about offering faster access to information produced by those companies who pay them a subscription fee. This challenge to the principle of net neutrality - the term given to the current Internet climate where users obtain equal access to all information without differing speeds of access – follows a similar position from telcos in the US, which want to make some money out of the content providers who in turn are making money out of the Internet while using telcos' lines for free. The system proposed by Virgin Media would prioritise information from the content providers which paid a fee, whilst slowing down the connections from sites that did not pay - thereby adversely affecting users' experience of non-fee paying sites and services.

- ***Council of Europe recommends countries legislate to protect users' rights to have unfiltered Internet access...***

The Council of Europe, the organisation behind the European Convention on Human Rights, has recommended that its 47 Member States introduce laws to prevent filtering of Internet access except on the rare occasions where it is justified. The Council's recommendation follows heightened concerns over Internet filtering. Whilst the Council recognised the need to filter information to protect children from potentially harmful content, it says that general filtering without safeguards - such as informing users when filtering is taking place and allowing users to control filters - risked breaching people's human rights, particular their rights to freedom of expression and information and the right to participate in democratic processes. The Council wants countries to ensure that filtering is not used to suppress information or prevent communication. The recommendation did not address the current hot topic of whether Internet service providers should be filtering content from users who are engaged in unlawful peer-to-peer copying of content without the copyright owners' permission.

JURISDICTION

- ***Government consults on new proposals for rules on EU cross-border contract laws...***

The Government has issued a consultation paper in which it is supporting the proposed new EU rules that deals with the issue of which country's laws apply in cross-border situations, the Rome I Regulation ('Regulation'). The Rome I Regulation is set to replace the Rome Convention of 1980 ('Convention') which currently determines how parties in different countries should settle disputes over which country's laws apply. The basic principle of the Convention is that two parties can choose which countries' law will govern their dealings, although this is subject to consumers also not losing the protection of any mandatory provisions protecting them in their home country.

The UK Government opted out of the European Commission's initial proposal in 2005 because it believed that it 'proposed fundamental changes to the law applicable to consumer contracts' in addition to the applicable law in the absence of choice. There was also resistance in the private sector during the consultation process arising out of concerns that the proposal would potentially have a detrimental economic impact and introduce significant legal uncertainty into complex multi-party international contracts. The 2005 proposal would have removed freedom of choice as to the applicable law for consumer contracts by stating that in all cases the applicable law would only be that of the place where the consumer lived (rather than just adding to the parties' choice of law with any additional mandatory consumer laws in the consumer's home country, as the Convention provided). Business was concerned that this would have imposed an unfair burden on them to check up on the laws of each place where they were selling to.

The Commission issued an amended proposal last November, as it had failed to get enough support for the 2005 proposal. The Government has now issued a consultation paper inviting UK businesses to give their views on the Commission's latest proposal. The Government has set out how the latest version of the Regulation would deal with the concerns it had with the 2005 proposal and recommends that the UK opts into the Regulation to avoid losing the benefit currently provided by the Convention and also to avoid the need to maintain two separate systems which would increase the legal complexity for businesses.

The consultation is open until 25 June 2008. For a copy of the consultation paper and a list of questions for response, see the Ministry of Justice website: <http://www.justice.gov.uk/publications/cp0508.htm>.

MISLEADING ADVERTISING

- ***Play.com does not play by the rules as ASA rules that it had breached advertising code by raising price of month-long advert after just 3 days...***

Play.com – the online retailer – has been found to have misled consumers after it had advertised a reduced price DVD of the film 'Pirates of the Caribbean' for just three days. The advert appeared in a magazine which was published on 28 September for pre-orders of the DVD due to be released on 19 November. However, the price rose by 1 October – due to high demand, according to Play.com. That was despite the magazine being on sale from 28 September and throughout October. The Advertising Standards Authority ('ASA') concluded that because the publication had a long sales time, consumers were likely to be disappointed if the advertised price was not available for more than just three days and therefore the advertisement was

misleading. This was despite a disclaimer that Play.com put with the advert that said prices were correct at the time of going to press but play.com reserved the right to change prices.

The ASA also condemned Play.com's reference in its cut-price offer to a recommended retail price ('RRP'). As the DVD had not yet been on general release and a price had not yet been set, the ASA considered that the RRP could not reflect the price at which the DVD was generally sold and therefore was not genuine.

Accordingly, Play.com was found to have been in breach of the CAP Code and was ordered not to repeat the advert. The CAP Code is a code of practice governing the content of adverts and marketing communications. Although the Code does not have legal force, it is best practice to comply with it, as failure to do so can result in bad publicity and ultimately an inability to obtain advertising space.

- ***Online headphone retailer breaches ASA code over failure to give out prize months after competition closed...***

iheadphones.co.uk, the online retail website operated by Nusystems, has been found by the Advertising Standards Authority ('ASA') to have breached the CAP Code. The CAP Code is a code of practice governing the content of adverts and marketing communications. Although the Code does not have legal force, it is best practice to comply with it, as failure to do so can result in bad publicity and ultimately an inability to obtain advertising space.

In this particular case, the retailer has as yet failed to award a prize offered in a competition despite the submission of hundreds of entries last October. It had previously been expected that the winner would be announced last November. Following the ASA's investigation, iheadphones told the ASA that it had been overwhelmed by the response to the competition and that the two experienced staff who had been responsible for picking the winners had left the company before the time had come to judge the competition. It had also had a busy Christmas period to deal with.

The ASA found that the lengthy delay in the judging process could have caused the participants unnecessary disappointment. Due to the fact that consumers were not notified that the competition was being delayed and they were not provided with details of when the winner would be decided, the competition had breached rules on substantiation, truthfulness, sale promotion rules, administration and closing dates. iheadphones has assured the ASA that the competition entries would still be judged and a winner chosen. The ASA has accepted iheadphones' comments, but it now wants to see some action to rectify the situation and award the prize.

MISLEADING SELLING

- ***New consumer selling laws and business comparison laws come into force - the Consumer Protection from Unfair Trading Regulations 2008 and the Business Protection from Misleading Marketing Regulations 2008...***

The Government is introducing two new laws which will affect the way businesses can sell or market their goods or services. They are the Consumer Protection from Unfair Trading Regulations 2008 and the Business Protection from Misleading Marketing Regulations 2008. They implement the EU's Unfair Commercial Practices Directive and the Consolidated Directive on Misleading and Comparative Advertising respectively.

The Consumer Protection from Unfair Trading Regulations 2008 ('CP Regulations') will implement the Unfair Commercial Practices Directive to prohibit unfair commercial practices including the following:

- ◆ General prohibition on 'unfair practices'. A practice is unfair if it falls below generally accepted standards of honest market practice or good faith, and it is likely to materially distort the behaviour of the average consumer (eg making a purchasing decision).
- ◆ Prohibition on misleading actions. This occurs where something contains false information or overall it is likely to deceive the average consumer even if the information is factually correct, and it causes the average consumer to take a transaction decision that he would not otherwise have taken. An action may also be misleading if marketing a product creates confusion with another product or trade mark or if a trader does not conform with a code of conduct that he had agreed to comply with.
- ◆ Prohibition on misleading omissions. This occurs if someone omits, hides, leaves unclear or provides late, any important information that consumers need in order to decide whether to go ahead with a transaction, and as a result the average consumer is likely to take a transaction decision that he would not otherwise have taken.
- ◆ Prohibition on aggressive selling. It is aggressive if, in the circumstances, the selling is likely to significantly impair the average consumer's freedom of choice or conduct in relation to the product (eg through harassment, coercion or undue influence) and causes him to take a transaction decision that he would not otherwise have taken. Various factors are taken into account here, such as the timing, location, persistence and language used.
- ◆ In any event, the Regulations contains a non-exhaustive list of actions that would make a practice unfair – such as:
 - displaying a trust mark, quality mark or equivalent without having obtained the required authorisation;
 - claiming that a trader or a product has been approved or endorsed by someone when this is not the case or making a claim without complying with the terms of the approval, endorsement or authorisation;
 - promoting a product similar to a product made by a particular manufacturer in such a manner as to deliberately mislead the consumer into believing that the product is made by that same manufacturer when it is not.

The CP Regulations contain a radical overhaul of selling to consumers and replace many provisions of the Trade Descriptions Act 1968. The penalties for breaching the Regulations include large fines and up to two years in prison – so it is worth getting things right!

The Business Protection from Misleading Marketing Regulations 2008 ('BP Regulations') will implement the Consolidated Directive on Misleading and Comparative Advertising, replacing the Control of Misleading Advertising Regulations 1988. The BP Regulations prohibit misleading advertising and are directed at protecting businesses from misleading practices. The criteria to be taken into account for determining whether an advertisement is misleading includes:

- ◆ any information the advertisement contains about the geographical or commercial origin of the product;
- ◆ the advertiser's identity; and
- ◆ the advertiser's ownership of industrial, commercial or intellectual property rights.

The BP Regulations also regulate comparative advertising and reproduce the existing criteria from the Control of Misleading Advertisement Regulations 1988, but with a

further requirement that the comparison must not be a misleading act or omission under the CP Regulations.

The BP Regulations do, however, provide a defence of 'innocent publication' which is likely to be available to Internet service providers and websites that routinely advertise. The defence will apply if the offender can prove that:

- ◆ it is in the business of publishing advertisements;
- ◆ it received the offending advertisement in the course of that business; and
- ◆ it did not know, nor had any reason to suspect, that its publication would amount to an offence.

The CP Regulations and the BP Regulations come into force on 26 May 2008.

PATENTS

- ***Document management system permitting recovery of documents was excluded from patentability as it was merely a computer program without any technical effect – Kapur v Comptroller General, High Court...***

The High Court has ruled that patent applications for a document management system that dealt with data that had been deleted or overwritten in a database was excluded from patentability as the invention was merely a program for enabling storage and retrieval of documents in a computer database in a particular way. Accordingly, the invention was purely a software program and did not have a technical contribution. The claimed method was not a new or improved computer but a standard computer programmed designed to deal with document storage in a particular way. The Patents Act 1977 excludes computer programs as such, without any further technical contribution, from patentability. The dividing line is often complex and patents are rarely granted for computer programs in Europe. This case fell the wrong side of the line for the patent applicant.

The High Court also ruled here that the patent claims were wide enough potentially to include a manual implementation of the invention such as document handling in a physical library. A book management system in a library which implemented the invention would involve the creation of physical records and separation of documents which may be more than a method of performing a mere mental act. (Performing a mere mental act was also excluded from patentability.) The High Court therefore sent the case back to the Intellectual Property Office to decide whether the application could survive after the removal of the computer implementation angle.

TRADE MARKS AND PASSING OFF

- ***Google lifts UK and Ireland ban on buying trade marks to trigger advertisements...***

Google has lifted a ban in the UK and Ireland on businesses buying the right to use another business's trade mark to trigger advertisements. Previously trade mark owners have maintained a monopoly on advertising space in Europe by requesting that Google prevent other parties from sponsoring its trade marks as keywords. Google's decision to lift the ban in the UK and Ireland brings its trade mark policy for these countries in line with its policy for the US and Canada.

Experts fear that the bidding process will increase the costs for a trade mark owner of advertising its brand through Google's AdWords programme. However, it is good news for comparison websites such as mysupermarket, which compares prices in the four major online supermarkets, as they can now pay for sponsored ads to be triggered when people type in the brands of one of the retailers whose prices mysupermarket compares. Although the rules are relaxed to allow users' searches of a name to trigger an ad for another company, the text of the ad itself must not contain the brand name.

- **Registering 'CITI' figurative mark would lead to free-riding on the reputation of the 'CITIBANK' mark – Citigroup and Citibank v OHIM, European Court of First Instance...**

The European Court of First Instance ('CFI') has ruled that there was a high probability that the use of the figurative 'Citi' mark would lead to free-riding on the reputation of the 'CITIBANK' mark and could also lead to the perception that Citi was associated with or belonged to Citigroup, the banking giant.

Citi SL ('Citi') had applied to register the figurative mark 'CITI' as a European Community Trade Mark ('CTM') in class 36 for customs agencies, property valuers, real estate agents and evaluation and administration of house contents. Citigroup and Citibank opposed the application as it had registered several other CTM's including 'CITIBANK' in respect of real estate and financial services in class 36. The opposition department of the Office for Harmonisation in the International Market ('OHIM') – the body in charge of deciding whether to grant or refuse CTM applications – upheld the opposition but the OHIM Board of Appeal decided that the appeal should be allowed in relation to customs agency services. Citigroup and Citibank then appealed to the CFI, and OHIM even argued against its own Board of Appeal – successfully, as it turned out.

Citicorp and Citibank succeeded in its opposition under Article 8(5) of the Community Trade Mark Regulation by arguing all of these three conditions:

- ♦ the marks were identical or similar. The CFI took the view that it was sufficient that the degree of similarity meant that the public would establish a link between the marks. It was not necessary for there to be a risk of confusion. Whether such a link existed was to be assessed globally taking into account all relevant factors. The CFI decided that the marks were visually, phonetically and conceptually similar.
- ♦ The earlier 'CITIBANK' mark had a reputation – this was not disputed.
- ♦ There was a risk that the use without due cause of the trade mark applied for would take unfair advantage of, or be detrimental to, the distinctive character or reputation of the earlier trade mark. The CFI ruled that the concept of taking unfair advantage encompassed instances where there was clear exploitation and free-riding on the coat tails of a famous mark or an attempt to trade on its reputation. Due to the strong reputation of 'CITIBANK', this was highly probable here.

- **No EU trade mark use where goods were stored in the UK in transit but never intended for use in the UK – Eli Lilly v 8 PM Chemists, Court of Appeal...**

PM was an English chemist. It obtained genuine drugs made by Eli Lilly from Turkey. No import duties were paid because the goods were under customs control as they were never intended for supply in the UK. The UK was just a pass-through venue. The drugs were despatched from PM to customers in the US on its website. At no point were Eli Lilly's trade marks on display during this process. Eli Lilly sought an

injunction to stop PM from supplying drugs under its trade marks. It claimed that it had used the products with Eli Lilly's trade marks in the EU without Eli Lilly's authorisation despite Eli Lilly not having put those particular trade marked products on sale in the EU.

The High Court had granted an injunction for Eli Lilly to stop PM, but PM has now succeeded in persuading the Court of Appeal to lift the injunction on the basis that Eli Lilly did not have an arguable case of trade mark infringement. The goods had never been in circulation as they were always subject to customs control. The trade marks in question had therefore never been 'used' in the EU.