



## TRADE MARKS

### The bubble bursts for O2

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The European Court of Justice (ECJ) decision, on 12 June 2008, in *O2 Holdings Limited and O2 (UK) Ltd v Hutchinson 3G UK Limited* [2008] C-533/06 provides new guidance on the use of competitors' trade marks in comparative advertising.

The ECJ ruled that O2 Holdings Limited and O2 (UK) Ltd (O2) could not rely on its trade mark rights to prevent the use of bubble imagery in a comparative advert broadcast by Hutchinson 3G UK Limited (H3G). This was because the advert was not misleading and did not cause confusion as to the origin of the services being offered.

In its press statement on the decision, the ECJ stated "The court finds that the proprietor of a registered trade mark is not entitled to rely on his trade mark rights to prevent the use, by a third party, in a comparative advertisement, of a sign similar to that mark in relation to goods or services identical with, or similar to, those for which that mark is registered where such use does not give rise to a likelihood of confusion on the part of the public."

### BACKGROUND

Mobile operator O2 brought proceedings against H3G in response to a comparative advertising campaign launched by H3G in 2004 for H3G's pay-as-you-go mobile phone service called Threepay. H3G broadcast a television advert that compared its charges to those of its four main competitors, including O2. The advert used the name of O2, a backdrop of moving black and white bubbles and a voiceover that compared H3G's pricing with that of O2. O2 owns a number of pictorial bubble trade marks, registered in the United Kingdom for telecommunications apparatus and services that it uses in its own advertising. O2 brought proceedings against H3G for infringement of four of O2's registered marks.

At first instance, Justice Lewison held that H3G's use of O2's marks was infringing under Article 5(1)(b) of First Council Directive 89/104/EEC (the Trade Marks Directive), as implemented in the United Kingdom by section 10(2) of the

Trade Marks Act 1994. H3G were, however, held to have a defence for this infringement. Article 3a of Directive 84/450 (the Comparative Advertising Directive), sets out eight conditions that must be satisfied in order for a comparative advert to be lawful. The advert complied with these eight requirements. This provided a defence within Article 6(1)(b) of the Trade Marks Directive, which states that trade mark proprietors may not prohibit third parties from using, in the course of trade, indications that are descriptive of the characteristics goods or services.

Both sides appealed the decision. H3G argued that it had not infringed O2's trade marks in the first place. O2 contended that H3G did not have a good defence against O2's claim.

The Court of Appeal considered that the case raised questions of how far comparative advertising could go under EU law. It particularly examined the question of whether an advertiser could use both a rival's main name or trade mark and subsidiary trade marks or trade imagery in a comparative advertisement.

Article 5(1)(b) of the Trade Marks Directive provides that a trade mark proprietor may prevent any third party from using, without consent and in the course of trade, "any sign where, because of its identity with, or similarity to, the trade mark and the identity or similarity of the goods or services covered by the trade mark and the sign, there exists a likelihood of confusion on the part of the public, which includes the likelihood of association between the sign and the trade mark." H3G argued that the use of the bubbles was not use of a similar mark in circumstances likely to confuse consumers, as there was no likelihood of confusion when the advert was considered as a whole. The use of the bubble imagery therefore did not fall within Article 5(1). H3G argued further that, even if the use was infringing, it had a defence under Article 6(1)(b) of the Trade Marks Directive as the use of bubbles in the disputed advert was purely descriptive.

O2 argued that the essential conditions set out in Article 3a of the Comparative Advertising Directive included a requirement that the use of a trade mark or trade name is only permissible where it is necessary, as the recital to the Comparative Advertising Directive refers to circumstances where such use is "indispensable". O2 argued that the disputed advert therefore

did not comply with the essential conditions of the Comparative Advertising Directive because the use of bubble imagery was not necessary to make the price comparison.

The Court of Appeal considered that the question of whether H3G had infringed O2's trade marks was unclear and referred the following questions to the ECJ:

1. *Where a trader, in an advertisement for his own goods or services uses a registered trade mark owned by a competitor for the purpose of comparing the characteristics (and in particular the price) of goods or services marketed by him with the characteristics (and in particular the price) of the goods or services marketed by the competitor under that mark in such a way that it does not cause confusion or otherwise jeopardise the essential function of the trade mark as an indication of origin, does his use fall within either (a) or (b) of Article 5 of Directive 89/1041?*
2. *Where a trader uses, in a comparative advertisement, the registered trade mark of a competitor, in order to comply with Article 3a of Directive 84/4502 as amended must that use be "indispensable" and if so what are the criteria by which indispensability is to be judged?*
3. *In particular, if there is a requirement of indispensability, does the requirement preclude any use of a sign which is not identical to the registered trade mark but is closely similar to it?*

#### THE ECJ'S RULING

The ECJ considered that the Comparative Advertising Directive was intended to promote the use of comparative advertising in order to stimulate competition between traders to the advantage of consumers, and as a legitimate means of informing consumers about the goods and services offered by the traders.

According to the ECJ, a trade mark proprietor can only prevent the use of a sign that is identical or similar to a registered trade mark under Article 5(1)(b) of the Trade Marks Directive where the following four conditions are satisfied:

- The use is in the course of a trade.
- The use is without consent.
- The use is in respect of goods or services which are identical with or similar to those for which the mark is registered.
- The use affects or is liable to affect the essential function of the trade mark, which is to guarantee to consumers the origin of the goods or services, by reason of a likelihood of confusion on the part of the public. Any risk of confusion by consumers includes the risk that the public might believe that the goods or services come from the same or economically-

linked undertakings.

The ECJ considered that H3G's advert met the first three of these conditions but not the fourth. It is necessary to compare the allegedly infringing sign with the registered trade mark in context, with the advert considered as a whole. The advert did not give rise to any likelihood of confusion, was not misleading and did not suggest any form of commercial link between O2 and H3G.

With regard to the first question referred by the Court of Appeal, the ECJ considered that the critical issue was whether there was a likelihood of confusion on the part of consumers regarding the origin of the goods or services being offered by the advertiser. The ECJ ruled that comparative adverts using signs that are identical or similar to a competitor's registered trade mark will not constitute trade mark infringement where there is no likelihood of confusion and the advert complies with the essential conditions set out in Article 3a(1) of the Comparative Advertising Directive. Honest and fair comparative advertising is therefore permissible, as long as there is no likelihood of confusion on the part of the public regarding the origin of the goods being advertised.

With regard to the descriptive use of a trade mark in a comparative advert, the ECJ ruled:

"An advertiser will not infringe a trade mark under Article 5(1)(b) of the Trade Marks Directive where he uses a sign similar to a competitor's registered trade mark in an advert for goods or services identical with or similar to those for which the trade mark was registered so far as such use does not give rise to a likelihood of confusion on the part of the public. This is regardless of whether or not the mark is descriptive."

Where trade mark infringement is alleged, the defence of "descriptive use" under Article 6(1)(b) of the Trade Marks Directive is therefore not available to an advertiser broadcasting a comparative advert where a risk of confusion by consumers regarding the origin of the goods exists.

As the answer to the Court of Appeal's first question was negative, the ECJ did not consider the second and third questions referred. Whether the interpretation of Article 3a(1) of the Comparative Advertising Directive requires that any use of a registered trade mark to be "indispensable", and the scope that requirement if it exists, remains in doubt.

The case will now be remitted to the Court of Appeal to give a final ruling.

#### The knives are out—Sabatier composite trade marks

In *Rousselon Freres et cie v Horwood Homewares Ltd* [2008] EWHC 881 (Ch) (24 April 2008, Mr Justice Warren allowed an appeal in part from a decision of a hearing officer at the United

Kingdom Intellectual Property Office (UK-IPO). This case may be one of the longest and certainly one of the most intricate cases assessing the likelihood of confusion between an earlier trade mark and a later registered composite trade mark containing that earlier mark. The central message from this case is that it is vital first to determine whether the earlier mark has an independent, distinctive role before then answering the question as to whether there is a likelihood of confusion.

## BACKGROUND

In an August 2007 decision, the hearing officer, Mike Foley, dismissed applications made by Rousselon Freres et cie to invalidate two composite UK registered trade marks registered by Horwood Homewares (HH's marks). HH's marks were for JUDGE SABATIER and STELLAR SABATIER (depicted below) in Classes 8 (cutlery, forks and spoons, hand tools for culinary and for horticultural use; knives) and 21 (domestic utensils and containers).



Rousselon's applications for invalidity were based on three earlier UK trade marks dating from 1956, 1969 and 1990. These were, specifically, a SABATIER word mark and the two composite marks depicted below, all registered in Class 8 (the RF marks).



On appeal, Rousselon argued that the hearing officer was wrong to dismiss its applications as there existed a likelihood of confusion under Section 5(2)(b) of the Trade Marks Act 1994 between HH's marks and the RF marks, in particular Rousselon's registration for the SABATIER word mark. As a result, Rousselon argued, HH's marks should have been declared invalid.

By way of background, the "*et cie*" in Rousselon's name reflects that it is part of an association, the Association des Propriétaires des Marques de Coutellerie incorporant le mot Sabatier (Association of Proprietors of Cutlery Trade Marks incorporating the word Sabatier). One of the main purposes of this association is the protection, for its members, of the use of any mark that contains the word "sabatier". The Association was formed by successors to the Sabatier family who started making and selling cooks' knives in Thiers, France. Successive generations across several branches of the family continued to trade in Thiers, leading to independent use of the SABATIER name by a number of different businesses. The Association was formed in 1979 for the purpose of protecting the SABATIER name and conserving its distinctive character.

## THE HEARING OFFICER'S DECISION

The hearing officer held that, although there was a shared identity between the majority of the goods covered by the respective marks in Class 8 and some similarity between the marks, there was nevertheless no likelihood of confusion between HH's marks and Rousselon's SABATIER mark. He held that there was no similarity between Rousselon's Class 8 goods and the goods covered by Class 21 of the HH marks. On that basis, he dismissed the applications.

Rousselon had argued that the additional words and incorporated designs in the HH Marks were insufficient to indicate a different trade origin to the public and the consumer would be confused into thinking that the HH Marks would somehow be connected with Rousselon. The hearing officer, however, stated that he could see no reason why the word SABATIER would be singled out for attention and that JUDGE and STELLAR were well used and distinctive marks and were not dominated by the SABATIER element. In his mind, because there were a variety of marks that incorporated SABATIER, used by different traders, consumers would likely focus their attention on other elements in order to distinguish them. But, in any event, following the rule in *SABEL C-251/95* [1997] ECR I-6191 that "the average consumer normally perceives a mark as a whole and does not proceed to analyse its various details", there would be little likelihood of confusion.

## ISSUES ON APPEAL

In essence, there were two main issues on appeal. The first was whether the hearing officer's decision that there was no likelihood of confusion rested on an error of principle or was

otherwise clearly incorrect in light of the facts of the case. The second issue related to the similarity of the Class 21 goods with the Class 8 goods. The question of the similarity of goods was decided first because, only if the goods were similar, could the question of confusion arise.

#### JUDGE'S DECISION ON SIMILARITY OF GOODS

Rousselon raised numerous arguments to undermine the hearing officer's decision that the Class 21 goods with the HH marks were not, in fact, similar to the Class 8 goods in the RF marks. These arguments, however, fell on stony ground. Warren J referred to the judgment in *British Sugar plc v James Robertson & Sons Ltd* [1996] RPC 281 and, in particular, to the list of factors to be considered when trying to decide similarity between categories and classifications of goods. In brief these are

- (a) The uses of the respective goods.
- (b) The users of the respective goods.
- (c) The physical nature of the goods.
- (d) The trade channels through which the goods reach the market.
- (e) In the case of self-serve consumer items, where, in practice, they are respectively found or likely to be found in supermarkets.
- (f) The extent to which the respective goods are in competition with or complement each other.

The hearing officer had found that there was identity in relation to factors (a), (b) and (d). He had also found that, in relation to factor (f), the goods were to some extent complementary but certainly not in competition. However, he was not ultimately persuaded that the Class 21 goods were in fact similar to those listed by Rousselon in their Class 8 marks. Warren J was satisfied that the evidence before the hearing officer was such that the finding reached by the hearing officer was reasonable and justified and, as such, he was entitled to find, on the evidence, that the goods were not similar. In the absence of any error of principle on the part of the hearing officer, the decision that those goods were not similar could not be overturned.

#### JUDGE'S DECISION ON LIKELIHOOD OF CONFUSION BECAUSE OF SIMILARITY OF MARKS

The hearing officer referred to numerous decisions in his findings, but, according to Mr Justice Warren, he had neglected to examine two of the most relevant cases in the area of composite marks and likelihood of confusion, namely, *Medion v Thomson Multimedia* [2006] C-120/04 ETMR 13 and *OHIM v Shaker di L Laudato & Co Sas* [2007] C-334/05 P. In

particular, the ECJ decision in *Medion* was of paramount importance for its detailed guidance regarding composite marks and likelihood of confusion.

From *Medion*, it was established that, in order to establish the likelihood of confusion regarding a composite mark, a comparison must be made by examining each of the marks in question as a whole and not by just taking one component of the composite mark and comparing it with another mark. The finding that there is a likelihood of confusion should not be subject to the condition that the overall impression produced by the composite mark be dominated by the earlier mark. Therefore, if the earlier mark still has an independent distinctive role, the origin of the goods or services covered by the composite sign may still be attributed by the public to the owner of that mark and therefore a likelihood of confusion would exist.

According to Warren J, the only possibility of confusion arose out of the presence of the word SABATIER in the various marks since, in all other respects, the marks were completely different. The question therefore was whether the mark SABATIER was distinctive at all and, if so, whether it retained any independent distinctiveness in the HH marks. In addressing this question, it was necessary (in the light of *Medion*) to see whether the word SABATIER had "an independent distinctive role in the composite sign". If it did then there was every chance that a likelihood of confusion could exist.

The hearing officer had viewed the word SABATIER as having a normal degree of distinctiveness and that SABATIER had no independent role in the mark. Rousselon's position was that Mr Foley had erred in law and in principle by wrongly finding a dominant and distinctive element in respect of each of the HH marks with which (and only with which) to compare the RF marks. Moreover, Rousselon argued that the hearing officer wrongly concluded that the dominant and distinctive elements of the HH marks were the words JUDGE and STELLAR respectively, such that there was no likelihood of confusion between those marks and the RF marks. Rousselon also argued that the hearing officer had wrongly concluded that its earlier SABATIER mark had not acquired a reputation and that he failed to apply the interdependency principle as laid down by the ECJ in *Canon* [1998] C-39/97 ECR I-5507, *i.e.*, that a lesser degree of similarity between the marks may be offset by a greater degree of similarity between the goods, in relation to his finding that the goods of the respective registrations in Class 8 were identical.

Warren J considered that the word SABATIER retained an independent, distinctive role in the HH marks. The marks JUDGE and STELLAR were also well known names in the trade but this did not save them from the *Medion* test. Applying the reasoning in *Medion* to a composite mark

comprising an earlier mark, such as SABATIER, in juxtaposition with JUDGE or STELLAR, Warren J found it impossible to agree with the hearing officer that there was no likelihood of confusion between Rousselon's SABATIER mark and the HH marks. In the judge's mind, the hearing officer erred in principle by failing to apply, or give sufficient weight to, the approach laid down in *Medion*. He considered this to be a significant error vitiating the basis on which the hearing officer formed his view. For these reasons the Court concluded that Rousselon's applications to invalidate the HH marks should succeed in respect of goods in class 8 on the basis that there was a likelihood of confusion between the HH Marks and Rousselon's SABATIER marks.

### The likelihood of confusion and EU languages

In *Redcats SA v OHIM* [2008] T-246/06 (unreported), the Court of First Instance (CFI) dismissed a French company's attempts to argue that a Community Trade Mark (CTM) application should be compared at a phonetic and conceptual level by only assessing the mark in respect of the language in which registration was made (in this case, French) and not in light of the language of any earlier trade mark (in this case, Spanish). The judgment underscores the steps required when comparing trade marks containing different Community languages.

### BACKGROUND

Redcats SA, the proprietor of the French word mark REVERIE, applied to register the same mark as a CTM for various goods in several Classes including Class 24 (Sheets, blankets, duvets, pillowcases).

Manuel Revert & Cia SA filed an opposition under Article 8(1)(b) of the Community Trade Mark Regulation (40/94/EC) based on an earlier CTM device mark REVERT (depicted below) registered in Classes 24, 25 and 39:



The Office of Harmonization for the Internal Market (OHIM) Opposition Division upheld the opposition insofar as it related to "sheets, blankets, duvets and pillowcases" in Class 24 as, in its view, the goods were either identical or highly similar to the goods covered by the earlier REVERT mark. It was therefore agreed that there was a certain visual and phonetic similarity between the marks that might create a likelihood of confusion on the part of consumers.

Rejecting Redcats' appeal, OHIM's Fourth Board of Appeal found that all the goods in Class 24 of the REVERIE mark were identical to those of the earlier REVERT mark. Moreover, they found that the marks were visually similar and phonetically similar in German and Spanish. The Appeal Board also found that, while their verbal elements might have a

meaning in some Member States, that was not the case in Germany, Austria and Spain. On this basis, the Board concluded that there would be a likelihood of confusion in those three States and therefore that the opposition as it pertained to the Class 24 goods would be upheld.

Redcats applied to the CFI to annul the Board's decision. Amongst other things, Redcats argued that the likelihood of confusion must be carried out with reference to an average, reasonably well informed, reasonably observant and circumspect consumer who does not necessarily have the marks in question in front of him. According to Redcats, such a consumer generally has a good knowledge of English and often of another foreign language, such as French and Spanish and, by comparing the marks based on the overall impression made by each of them, the marks at issue were distinctive. As a result, Redcats argued, French, English and Spanish speaking consumers would clearly perceive the visual, phonetic and conceptual differences that existed between the two marks.

Redcats also attempted to submit arguments during the OHIM appeal hearing regarding the phonetic and conceptual differences between the marks in Germany and Austria, but these were deemed inadmissible by the CFI. This was because, to include these arguments for the first time at the appeal hearing would serve to widen the subject matter of the dispute.

### THE CFI'S DECISION

It is settled law that a registration for a trade mark must be refused even where the relative ground for refusal applies in only part of the European Union (*Mülhens v OHIM (ZIRH)* [2004] T-355/02 ECR II-791). In the present case, the protection afforded to the earlier mark covered the whole of the Community and therefore the Court had to consider what would be the perception of the consumer for those goods within the *whole* of that territory. Furthermore, as the goods were everyday consumer goods, the relevant public with regard to which the assessment of the likelihood of confusion must be carried out, consisted of average consumers who were reasonably well informed and reasonably observant and circumspect. There were no foreign language presumptions attributed to such average EU consumers.

Contrary to Redcats' arguments, although the tiger image in the REVERT device mark occupied a similar space in the mark as the word element, the image itself was rather difficult to discern visually and, in fact, the image of the tiger represented was not readily identifiable. In contrast, the word element of the REVERT device mark was both immediately perceptible (because it was underlined and was clearly separate from the figurative element) and immediately comprehensible (because it was both short and written in spaced out capital letters in a font that was easy to read). Even taking the device mark as a whole, the word element was much more easily recognisable

and easier to remember; and as such would likely dominate any overall impression in the minds of the relevant public regarding the earlier REVERT device mark.

The Board of Appeal had also found that the first five letters of REVERT coincided with the first five letters of REVERIE and pointed out that “the beginnings of trade marks are of particular importance when determining how signs are perceived by the consumers addressed”. The Board then concluded that, despite the presence of some differences, the conflicting marks were visually similar. The CFI concurred and stated that indeed the first five letters were identical between the marks and that the letter “t”, which was the last letter in the earlier, REVERT mark, was not markedly visually different from the letter “i” of the REVERIE mark. Moreover, the CFI agreed with the Board of Appeal that, although the figurative element of the earlier mark unquestionably produced a certain visual impression, that element was too difficult to perceive to dominate the image of the mark that the relevant public would keep in mind. That element alone was not sufficient to establish the existence of differences capable of counterbalancing the visual similarities of the words contained in the two marks.

As regards the phonetic and conceptual comparisons of the marks, contrary to Redcats’ arguments, comparisons must be made with regard to all the languages spoken by the relevant public. In this case that would mean all the Community languages, not just French and English. Moreover, as the figurative element was quite difficult to discern, it put even more emphasis on the word portion of the mark. This was because the figurative element would not convey any immediate meaning for the part of the relevant public and therefore was not capable of affecting the conceptual comparison of the respective marks, each being considered as a whole.

The Board of Appeal had decided that, although the verbal elements might have a meaning in some Member States, that was not the case in Germany, Austria and Spain. Although the marks in question were phonetically similar in German and Spanish, they could not be compared conceptually in those two languages. This was a key factor when trying to make a distinction. However, although Redcats put forward arguments insofar as they related to Spanish, English and French, it did not properly challenge that assessment regarding German. As a result, any subsequent evidence submitted to the CFI was not admissible. Therefore the Board was entitled to find that there were phonetic similarities in German, that there was a possibility of comparing those marks conceptually in that language and, as such, any possibility of counteracting the visual and phonetic similarities in German was precluded.

The CFI concurred with the Board of Appeal that the two marks were visually similar and that, as Redcats had not properly disputed the similarity or identity of the goods at issue

or the phonetic similarity and the absence of a possibility of conceptually comparing the marks at issue in German, the Board had reached the correct decision. Therefore the Board had not erred in finding that there was a likelihood of confusion *inter alia* in Germany and Austria and a comparison with Spanish proved to be equally damning for Redcats. As a result, a likelihood of confusion under Article 8(1)(b) existed and therefore the opposition to registration of the REVERIE mark should be upheld.

#### COMMENT

When attempting to analyse a possibility of a likelihood of confusion involving an application to register a CTM, It is critical to consider all languages of the Member States, especially when the goods at issue are in common use. One must also ensure that an analysis of the “holy trinity” is made, namely of the visual, phonetic and conceptual elements of the marks under comparison, in order to reach a correct conclusion on whether a likelihood of confusion will result. In this case, the fact that first five out of six letters of the REVERIE mark matched the earlier mark was clearly critical in the CFI’s decision.

The case also serves to illustrate the need to make certain all bases are covered before filing an appeal. Had Redcats submitted evidence in a timely fashion regarding the German language issues there was at least a possibility of a different outcome.

## PATENTS

### High Court tells Patent Office to think again on “mental acts”

In its decision in *Kapur v Comptroller-General of Patents* [2008] EWHC 649 (Pat), the High Court of England and Wales has given a narrow interpretation to the mental acts exclusion from patentability in respect of a claimed method for preserving documents that have been deleted or overwritten. Floyd J rejected the Applicant’s arguments regarding the patentability of the invention as a computer program, but did accept that the method, when used on physical documents, could not be said to be a mental act “as such”.

#### BACKGROUND

Rajesh Kapur is the inventor in respect of a group of UK patent applications. All the applications relate in one way or another to document management systems. Mr Kapur represented himself before the Patent Office and the High Court.

The Examiner took objection to the applications on various grounds, such as the conflict with each other, as well as other more detailed grounds. The common thread running through the objections was whether the applications complied with

Section 1(2) of the Patents Act 1977 (excluded subject matter from patentability).

Following a hearing before the Deputy Director acting for the Comptroller (Mr Bartlett), all the applications were rejected as being for computer programs as such, and to the extent the applications were not so limited, they were for methods of performing mental acts. Mr Kapur appealed to the High Court. The patent application described the invention only in terms of a computer system. The invention applied to data that had been deleted (or overwritten) whether deliberately or unintentionally. The claim distinguished between “reference data” and “document data”. A particular feature of the method was to separate two kinds of reference data: reference data related to deleted documents from reference data related to documents that have been overwritten. Moreover, the actual document data (which would otherwise be lost when the deletion or overwriting takes place) was stored into a “separate empty file store”, and combination tables kept a record of the new location. This enabled data that was supposedly deleted or overwritten to be automatically recycled, *i.e.*, to be made available again.

## THE LAW

Section 1(2) enacts Article 52(2) and (3) of the European Patent Convention which provides:

(2) *The following in particular shall not be regarded as inventions within the meaning of paragraph 1: ...*

*(c) schemes rules and methods for performing mental acts, playing games or doing business, and programs for computers...*

(3) *Paragraph 2 shall exclude the patentability of the subject-matter or activities referred to therein only to the extent which a [European] patent application relates to such subject matter or activities as such.*

Thus, the exclusion only applies if the invention is solely a method for performing a mental act or a computer program or business method.

The law relating to the subject matter exclusions in Section 1(2) has recently been reviewed by the Court of Appeal in *Aerotel and Macrossan* [2007] RPC 7. The Court of Appeal in that case accepted the submission of counsel for the Comptroller that the correct approach to these issues is to

- Properly construe the claim.
- Identify the actual contribution.
- Ask whether the contribution falls solely within the excluded subject matter.

- Check whether the contribution is actually technical in nature.

A particular problem with a novel computer program is that, in a sense, every contribution will be technical in nature.

The other objection related to methods of performing mental acts as such. The Court of Appeal reviewed the authorities in *Aerotel*, including *Fujitsu* [1997] RPC 608, in which the Court distinguished between a narrow view of the exclusion, which confined it only to claims that covered methods carried out by the human mind, and a broader view, where it would exclude claims limited to methods of the kind performed by the human mind even if carried out on a computer.

## TECHNICAL IN THE RELEVANT SENSE?

Having reviewed the law, Floyd J asked whether the contribution lies solely in excluded matter, or whether it is technical in the relevant sense. He considered it convenient first to consider the claim insofar as it covered the management of computer documents. On appeal, Mr Kapur stressed that

- (i) The two types of reference data (or “deletes”) are required to be kept physically separate.
- (ii) By means of the operation of the program, the process of document retrieval is made more “accurate”, *i.e.*, less prone to errors.

By these means, Mr Kapur sought to show that his invention contributed a relevant technical effect. However, the Patent Office had found that, insofar as the invention was to be implemented by means of a computer, there was no indication in the specification that, so implemented, it required anything other than purely conventional hardware. The Patent Office had also found that, when so implemented, the computer did not control any technical process outside the computer. The judge noted, however, that these findings, whilst obviously correct, did not dispose of the question of whether the claims extended to a computer program as such.

As the judge explained, the storage and manipulation of data of all kinds is the essence of what computers are capable. They perform these tasks under the control of the compilation of commands in a computer program. If a new computer program is written, for example, to store a copy of a document at regular intervals in order to avoid losing the document, the computer will perform in a better way for some purposes. However, the contribution in that case is the computer program as such—it has no existence independently of the fact that it is implemented on a computer. This remains the case if the computer is programmed to distinguish between different types of document or data that it saves.

It is likely that in the course of programming a computer, there may be improvements in the way data is handled compared

with other ways of achieving the same end. But, it is improbable that in so doing, one would produce a relevant technical effect recognisable over and above the fact that the program is running on the computer.

The Patent Office therefore said that the invention was merely a program for enabling the storage and retrieval of documents in a computer database in a particular way. Therefore, the contribution made by the invention is the program itself, which accordingly must fall within the computer program exception. Floyd J agreed that the claimed method was not an improved computer, but an entirely standard computer programmed to handle document storage in a particular way. The fact that different types of deleted documents were handled in different ways and stored separately was purely an aspect of the design of the computer program. As such, in so far as the claim covered a computer implementation of the method, the contribution was correctly characterised as a computer program as such and there was no relevant technical effect.

#### **MENTAL ACTS EXCLUSION**

Floyd J also held that the narrow view under the *Aerotel* decision regarding the mental act exclusion is the correct one. More specifically, he held that the correct view is that the subject matter is not caught by the exclusion, provided the claim cannot be infringed by mental acts as such. It follows that the exclusion will not apply if there are appropriate non-mental limitations in the claim. In those circumstances it would not be possible to infringe the claim by mental acts alone and the invention would not comprise a method for performing a mental act.

The judge, however, rejected Mr Kapur's further argument that because his invention was novel and not obvious, it could not be something that is a "mental act". Floyd J questioned "how could something that, by definition, the skilled person would not think of, fall within the description "mental act"? Agreeing with the Patent Office, Floyd J rejected the submission as the exclusion covers clever mental acts as well as obvious ones.

Nevertheless, Floyd J allowed Mr Kapur's appeal insofar as it related to the mental act exclusion and ordered the applications remitted to the Office to consider whether, after the exclusion of the computer implementation, the application could survive further examination under the other provisions of the Act. Further examination was ordered to include consideration of the impact of the business method exclusion on any amended claim.

## **COPYRIGHT**

#### **Software ownership**

In the recent case of *Laurence Wrenn v Stephen Landamore* [2008] EWCA Civ 496, Mr Wrenn's appeal was dismissed and Lord Justice Toulson held that he was liable to pay Mr Landamore royalties for his work on developing software for interfaces to enable third party audio equipment to work with car radios of particular manufacturers. Mr Wrenn was also precluded from pursuing a copyright claim, since he and Mr Landamore had agreed that the intellectual property should reside in a company, formed for the purpose, which they owned equally and which, on account of their differences, had become deadlocked.

#### **BACKGROUND**

The Claimant, Laurence Wrenn set up a business, called ICD, to manufacture interfaces between audio equipment in cars and third party audio equipment. Mr Wrenn had sole control of ICD, which he effectively treated as indistinguishable from himself. In April 2001, Mr Wrenn asked the Defendant, Stephen Landamore, to work on the development of software for interfaces. It was agreed that Mr Landamore would be paid an hourly rate for programming work and it was clear that Mr Landamore regarded Mr Wrenn or ICD as the owner of the software. Unfortunately, relations between the parties gradually deteriorated. From Mr Landamore's perspective, this was because he was not being paid any money for the use that had been made of his programmes in interfaces marketed by ICD. From Mr Wrenn's perspective, it was because Mr Landamore was not prepared to give him access to the source code of the programs written for the interfaces.

In 2005, in an attempt to resolve their differences, the parties agreed to the formation of Integrated Multi-Media Solutions Ltd (IMMS) which would be jointly owned by them and which would own the software. IMMS was incorporated for this purpose. Mr Wrenn and Mr Landamore entered into an agreement that purported to deal with the intellectual property, with Mr Wrenn and Mr Landamore becoming directors and 50 per cent shareholders. Unable to agree how to proceed, however, the parties became deadlocked. In 2006, ICD went into liquidation and the intellectual property in the software owned by ICD was assigned to Mr Wrenn.

Mr Wrenn sued for a declaration that he was entitled in equity to the copyright in the software, or at least an exclusive licence, as an implied incident of the contract under which Mr Landamore wrote the programs. Mr Landamore counterclaimed for unpaid royalties.

## ARGUMENTS ON APPEAL

At first instance the judge dismissed Mr Wrenn's claim and gave judgment for Mr Landamore on the counterclaim for £45,324 plus interest. The judge nevertheless found that, subject to the IMMS agreement, Mr Wrenn was an exclusive licensee of the copyright in the software.

Ignoring the trial judge's suggestion that the parties reach a "sensible working accord", Mr Wrenn appealed on two grounds. First, he challenged the judge's finding that he had contracted personally with Mr Landamore for the relevant software work. Mr Wrenn's argument was that he had contracted on behalf of ICD and thus had incurred no personal liability, and that he was the owner of the copyright in the software, as it had been assigned to him by the liquidator of ICD in 2006. On the question of liability, he submitted that, by implication, he had negated his liability for the computer software work, which Mr Landamore did at his request, by asking Mr Landamore to send invoices to ICD. Second, Mr Wrenn contended that even if he failed on his first ground, the judge should have granted him remedies for infringement pursuant to Section 101 of the Copyright Designs and Patents Act 1988 in his capacity as an exclusive licensee of the copyright in the source code.

Mr Landamore's case was that he was engaged by Mr Wrenn personally. Although he invoiced ICD, he did so at the request of Mr Wrenn, who treated the company as if he and the company were one. By reason of the IMMS agreement, any intellectual property rights in the software now belonged to IMMS. Accordingly, Mr Wrenn was liable to Mr Landamore for any money due for work done by Mr Landamore under the contract, but Mr Wrenn had no right to assert any claim for copyright infringement, as any copyright now belonged to IMMS.

## COURT OF APPEAL

Lord Justice Toulson dismissed the appeal. On the first ground, looking at the evidence as a whole, Toulson LJ considered that it was open to the trial judge to reach the conclusion that Mr Wrenn was personally liable on the contract that he made with Mr Landamore. The initial contractual relationship between them had undoubtedly been made between them personally. ICD was Mr Wrenn's vehicle, which he used as he wished, and it was open to the judge to conclude that the request to send future invoices to ICD was not, in the circumstances of the relationship between the parties, sufficient to warrant the inference of a joint intention that ICD should have sole liability to Mr Landamore, particularly when considered in the context of the other evidence including the IMMS agreement.

Mr Wrenn's second ground failed for the simple reason that, whatever exclusive licence Mr Wrenn may have had under the original arrangements, it was superseded by the IMMS

agreement, under which all intellectual property rights in relation to the relevant software passed to IMMS. Toulson LJ considered this irrefutable and it was clear that his finding that Mr Wrenn was an exclusive licensee was subject to the effect of the IMMS agreement. Moreover, Mr Wrenn had conceded at trial that if IMMS owned the copyright, no remedy for infringement could be claimed. Toulson LJ considered that not only was that concession absolutely right but, as an appellate court should be cautious before allowing matters to be raised before it that were not pursued at trial, it was not now open to Mr Wrenn to withdraw the concession.

## COMMENT

Lord Justice Mummery agreed with Toulson LJ's lead judgment. He also stressed a further flaw in Mr Wrenn's case, specifically in relation to the claim that, as exclusive licensee, he was entitled to remedies by virtue of Section 101(1). Mummery LJ pointed out that, even if Mr Wrenn's exclusive licence had not been superseded by the IMMS agreement, he still couldn't sue for copyright infringement because the licence wasn't in writing as required by Section 92 CDPA.

As a result, Mr Wrenn wouldn't have had a right of action under the CDPA and certainly not against Mr Landamore as the copyright owner. This is not good news for holders of implied exclusive licences of copyright, who have achieved that status on the back of the principles set out in *Robin Ray v Classic FM* [1998] FSR 622, which was applied at first instance in this case.

## CONFIDENTIAL INFORMATION

### NICE drug appraisal process—procedural unfairness

In *R (on the application of Eisai Ltd) v National Institute for Health and Clinical Excellence* [2008] EWCA Civ 438, the UK Court of Appeal ordered the National Institute for Health and Clinical Excellence (NICE) to allow the pharmaceutical manufacturers Eisai and Pfizer access to information on how the NICE committee reached its decision on whether to recommend the prescription of the Alzheimer's drug ARICEPT. One of the central reasons that NICE gave for non-disclosure of the full data and information used in reaching its decision was "intellectual property rights" (IPRs). However, the Court of Appeal was not impressed with the UK's Government's attempt to rely on confidential information and IPRs in general to prevent the manufacturers' rightful access to the information.

## BACKGROUND

NICE is responsible for appraising the clinical benefits and cost effectiveness of certain health care interventions and for making recommendations as to their use in the National Health Service (NHS). At issue in this appeal were certain drugs for

the treatment of Alzheimer's Disease (AD). The drugs, known as acetylcholinesterase inhibitors (AChEIs), had previously been recommended for use in the treatment of NHS patients with mild to moderately severe AD. In 2006, NICE issued fresh guidance recommending their use only for patients with moderately severe AD (as determined on a basis laid down in the guidance).

The Claimant, Eisai, is a pharmaceutical company that holds the UK marketing authorisation for one of the drugs concerned, donepezil, which is marketed under the name ARICEPT. Eisai brought judicial review proceedings challenging the fresh guidance on a number of grounds. At first instance before Dobbs J, Eisai was partially successful on one ground, relating to non-compliance with anti-discrimination legislation, but failed on the other grounds of procedural unfairness and irrationality, in particular the denial of access to certain information related to the assessment procedure on the grounds of confidential information and copyright protection. On appeal, Eisai was only arguing over the issue of procedural unfairness and, specifically, the issue of confidential information.

#### **NICE'S SYSTEM OF TECHNOLOGY APPRAISALS**

When NICE sets guidance in relation to new drug regimens, its decision making process and the empirical information relied upon is technically quite complex. In the present case, NICE made available to various consultees, including Eisai, a read-only version of an economic model, in the form of an Excel spreadsheet, which was used to assess the cost-effectiveness of the drugs under examination.

Eisai requested, but was refused, a fully executable version of the model. Eisai's case was that the failure to provide a fully executable version on the grounds of confidential information rendered the consultation process unfair and that consequently the decision to issue the guidance was unlawful.

When a particular topic has been selected for appraisal, NICE identifies those organisations that might have an interest in the outcome of the appraisal. These typically include groups representing patients and carers, bodies representing healthcare professionals, manufacturers, and research groups. Such stakeholders are divided into "consultees" and "commentators", with only consultees having a right of appeal against NICE's eventual guidance.

NICE works with the Department of Health (DoH) to produce a scope for the appraisal, which, once finalised, the DoH formally instructs NICE to carry out. The process of appraisal by NICE for any particular candidate "intervention" is exceptionally detailed and elaborate, involving extensive consultation and a high degree of disclosure at all relevant stages.

Eisai's only complaint about the procedure related to the non-disclosure of the fully executable version of the economic model. NICE's policy is not to release the fully executable version on the grounds that all such economic models are confidential information and protected by intellectual property rights (presumably copyright and database rights) and therefore restricted from disclosure. There have been exceptions to that policy, but no such exception was made on this occasion.

Eisai contended that the failure to provide the fully executable version (on a basis that would allow it to be re-run with alternative assumptions and inputs) was unfair. It meant that Eisai was unable to test the reliability of the model by running sensitivity analyses and by tracking the formulae so as to check their accuracy. This prevented Eisai from making informed representations on a central element in the appraisal process. Eisai contrasted NICE's refusal to disclose the fully executable version of its model with NICE's requirement that, where manufacturers submit models of their own as part of their consultation responses, they must provide the fully executable versions of those models.

NICE's original stance was that there is already sufficient disclosure, including provision of the read-only version on request, to meet the requirements of procedural fairness; and it put forward two reasons why it is unwilling to go further. First, it said that the model is provided to it under terms of copyright and confidentiality that preclude the disclosure of the fully executable version. The second reason was a practical one, namely that disclosure of the fully executable version, and the additional representations that this would generate, would be liable to create a great deal of extra work and delay, slowing down the appraisal process by two to three months and that this would not be justified by the marginal gain to the consultees of having the fully executable version rather than just the read-only version.

#### **CONFIDENTIALITY**

The models were commissioned from academic centres (including Southampton Health Technology Assessments Centre or SHTAC) by the Secretary of State and were supplied to NICE on the following basis (set out in a letter dated 2 November 2005 from the NHS's Health Technology Assessment Programme Director):

- The IPR for all models rests with the institution of the author/s.
- That, while NICE may receive an executable model, it may not transmit that model to anyone else without the explicit consent of the holder of the IPR.
- That NICE may transmit a non-executable model to consultees subject to the usual conditions.

NICE provided evidence that the economic models provided to NICE regarding the AD drugs were confidential. At first instance, Dobbs J said that there was a clear policy, of which all AD consultees were fully aware, in relation to the receipt and release of models: the provision of the SHTAC model was on the basis that it was being made in confidence and as a result NICE was obliged, in the absence of any public interest requirement for disclosure, to honour the rights of SHTAC. However, according to Lord Justice Tuckey and the others sitting on this appeal, including Lord Justice Jacob, this argument could not withstand scrutiny.

#### THE COURT'S DECISION

According to the Court of Appeal, the Secretary of State's obligation of confidentiality only applied to the contractor's business and affairs. There was no express duty of confidentiality required under the law restricting the use or disclosure of the model; and there was no reason why in the circumstances such an obligation might be implied so as to prevent the disclosure that Eisai sought. It would, as Eisai submitted, be very surprising if a model commissioned and paid for by the Secretary of State for the purposes of NICE's appraisal process was subject to obligations of confidentiality preventing disclosure of the fully executable version to consultees. In other words, the only obligation of confidence between NICE and the participants drawing up the models (in this case SHTAC) was to the "business and affairs" of the respective parties. This obligation did not cover the model.

Moreover, as the read-only version was disclosed by NICE as a matter of course, subject to standard undertakings as to confidentiality (which Eisai was willing to give in respect of the fully executable version) this intransigence by NICE was unacceptable. NICE's own position in these proceedings was that all the relevant information was to be found in the read-only version. They claimed that the formulae could be checked manually and that reverse engineering would be possible (although not permitted under the terms of the tender document). Lord Justice Tuckey stated that, quite logically, if provision of the read-only version gave rise to no issue of confidentiality, and no additional information was to be found in the fully executable version, it was difficult to see how release of the fully executable version could be subject to objection on grounds of confidentiality.

Accordingly, the argument concerning confidentiality was not one to which the Court attached any weight. It should not, in its view, have a material effect on the Court's decision as to whether procedural fairness required the fully executable version to be disclosed to consultees. Tuckey LJ added that, even if disclosure were *prima facie* a breach of confidence, NICE would have a public interest defence available to it if disclosure were necessary in order to meet the requirements of procedural fairness.

## DATA PROTECTION

### New powers for Information Commissioner's Office to fine for data protection breaches

The Criminal Justice and Immigration Act received Royal Assent on 8 May 2008. Somewhat unexpectedly, the new legislation will give the Information Commissioner's Office (ICO) the power to impose substantial fines on organisations that deliberately or recklessly commit serious breaches of the Data Protection Act 1998 (DPA). The ICO says that the new power, which will be brought into force by secondary legislation, "will act as a strong deterrent and help ensure that organisations take their data protection obligations more seriously".

The Criminal Justice and Immigration Act also provides a power for the Secretary of State to introduce unlimited fines or imprisonment for up to two years for offences under Section 55 of the DPA. This is a power that the Information Commissioner is keen to see exercised as the prospect of imprisonment is central to the ICO's strategy for combating what it identified in its 2006 report for Parliament, *What Price Privacy?*, as the hidden, pernicious and extensive trade in personal information.

A new offence of intentional or reckless disclosure was considered for inclusion in the Criminal Justice and Immigration Act but it failed to make the final cut. The Information Commissioner will also have to wait a little longer for the general power of inspection which the ICO has been seeking for the past two years. The Information Commissioner will not be complaining if, in due course, everything else eventually falls into place, but the two tier procedure under which the new penalty notice regime will operate bears an unfortunate resemblance to the ineffectual enforcement notice system under which the ICO currently operates.

#### BACKGROUND

Under Section 55 of the DPA, it is an offence to obtain, disclose or procure the disclosure of confidential personal information knowingly and recklessly without the consent of the organisation that holds the information. In *What Price Privacy?* the ICO aimed to expose an extensive illegal trade in personal information. The trade involves networks of middlemen, often private detectives, passing personal information to private individuals, financial services companies, insurers, journalists and, according to the ICO, even law firms and local authorities. Those supplying the information and often those receiving it are clearly guilty of offences under Section 55.

The ICO's position has always been that the current penalty regime, often resulting in a derisory fine or conditional

discharge, has done little to stem the illegal trading of personal information. The ICO has asked for the DPA to be brought into line with a number of pieces of legislation that already allow for custodial penalties for the misuse of personal information. For example, the ID Cards Act 2006 will allow for a custodial penalty of up to two years if information from the National Identity Register is disclosed.

Moreover, as the Information Commissioner pointed out in his January 2008 paper that sets out his case for further enhancement of his powers and penalties under the DPA, the sanctions available to the Commissioner have not changed since data protection laws were originally introduced in the United Kingdom in 1984. In contrast, the scale of data processing and the risks associated with it have increased exponentially. The two tier enforcement regime currently available to the Information Commissioner, based on the service of an enforcement notice, is generally regarded as ineffective, thereby allowing data controllers to manipulate the system.

#### **THE CRIMINAL JUSTICE AND IMMIGRATION ACT**

Section 144 of the new Act, when it is brought into force, will amend Section 55 of the DPA to give the ICO the power to serve financial penalty notices on data controllers who commit serious breaches of the data protection principles. Before serving such a notice, the ICO must be satisfied that the breach is serious and of a kind likely to cause substantial damage or substantial distress. The ICO must also be satisfied that the breach was deliberate or that the data controller knew, or ought to have known, that there was a risk that the breach would occur and that it would likely cause substantial damage or distress, but still failed to take reasonable steps to prevent it. Finally, the ICO must serve a notice of intent giving the data controller an opportunity to make representations. The data controller will be able to appeal any penalty to the Information Tribunal. The ICO is required by Section 144 to publish guidance on the basis upon which it will issue fines. The Home Secretary has the power to issue secondary legislation setting out further details of the new penalty regime, including levels of fines and cancellation of penalty notices.

Section 77 of the new Act also gives the Home Secretary the power to increase the sanctions available to the court for offences under Section 55 to allow for imprisonment for up to 12 months and a fine to level five on summary conviction, and imprisonment for two years and/or an unlimited fine on indictment.

With immediate effect, however, the new Act creates a new defence under Section 55 where a person has obtained or disclosed personal data for journalistic, literary or artistic purposes with a view to publication of journalistic, literary or artistic material, and in the reasonable belief that what they

have done was justified as being in the public interest.

#### **COMMENT**

The Criminal Justice and Immigration Act goes some way to satisfying the Information Commissioner's demands for greater enforcement powers. It is nevertheless a long way from satisfying the ICO. The new power for the Information Commissioner to be able to levy a fine, which was introduced at the eleventh hour very much as a political expedient in lieu of a new criminal offence, is considered too broad for data controllers who intentionally or recklessly disclose personal information, repeatedly and negligently allow information to be disclosed, or intentionally or recklessly fail to comply with the data protection principles. In his January 2008 paper, the Information Commissioner set out his case for more extensive changes to the Act to provide, amongst other things, for a new power for the ICO to inspect personal data and the circumstances surrounding its processing in order to assess compliance, along with the power to require a data controller to provide the Commissioner with a report by a skilled person. The ICO would like to see this general power to inspect backed up with additional offences of intentionally obstructing the exercise of the power or failing to provide assistance to anyone exercising the power.

These further proposals come at a time when the whole data protection regime is under review and the ICO will no doubt continue to push for further changes. Indeed, the need for tougher sanctions is even clearer now than it was in 2006 when the ICO published *What Price Privacy?*. The ICO cites, by way of example, the 25 million records lost by Her Majesty's Revenue and Customs and the high profile data protection breaches that regularly occurred in 2007. Public support has, as a result, never been stronger. The ICO also appears to have successfully deflected concerns over the proportionality of the new powers and penalties, for example the alleged "chilling effect" on investigative journalism. The ICO has repeatedly insisted that there is no impact on legitimate investigative journalism, but rather a threat to deliberate or reckless disclosure of personal data without consent.

## **COMMUNICATIONS & NEW MEDIA**

### **Communications data retention—internet access, IP telephony and email**

A proposal for a Communications Data Bill was announced on 14 May 2008 as part of the UK Government's Draft legislative programme 2008/09. The purpose of the Bill is to:

"...allow communications data capabilities for the prevention and detection of crime and protection of national security to keep up with changing technology through providing for the

collection and retention of such data, including data not required for the business purposes of communications service providers; and to ensure strict safeguards continue to strike the proper balance between privacy and protecting the public.”

This proposal was expected as the Government only has until March 2009 to transpose the rest of EU Directive 2006/24/EC on the retention of communications data into UK law. Unexpected, however, was the suggestion that data could be retained in a central Government database, a proposal that drew protest from the communications and IT industries and privacy groups when it was revealed.

#### **BACKGROUND**

The Data Retention Directive was partially implemented in October 2007 under the Data Retention (EC Directive) Regulations 2007/2199, which require providers of public communications services to retain data relating to fixed and mobile calls for a minimum of 12 months. The 2007 Regulations do not apply to the retention of communications data relating to internet access, IP telephony and email. The United Kingdom made a declaration pursuant to Article 15.3 of the Directive that it would postpone application of the Directive to these forms of data until 2009, and no later than the transposition deadline of 15 March 2009, reflecting the greater complexity in this area.

Communications data is essentially data relating to the traffic of communications generated or processed on the networks of communications providers or by the use of their services. Such data is used for a variety of business reasons, including billing, network management and the prevention of fraud. It is defined in the 2007 Regulations as traffic data and location data and the related data necessary to identify the subscriber or user.

Traffic data and location data have the same meaning as under the e-Privacy Regulations 2003/2426 (which also govern the use of unsolicited commercial email). Location data is defined under those Regulations as any data processed in an electronic communications network indicating the geographical position of the terminal equipment of a user. Traffic data is defined as any data processed for the purpose of the conveyance of a communication on an electronic communications network, or for the billing in respect of that communication, including data relating to the routing, duration, or time of a communication. Communications data does not therefore cover the content of any communication.

#### **RETENTION PERIOD**

The Directive requires Member States to ensure that data is retained for periods of not less than six months and not more than two years from the date of the communication. A 12 month retention period was adopted under the voluntary regime that preceded the 2007 Regulations and the Government sees

no reason for change, as, in its view, nothing has changed since the 2003 consultation that preceded that regime. The 2003 consultation concluded that 12 months was the optimal trade-off between law enforcement requirements and the associated interference with individuals’ right to privacy. It therefore seems likely that a 12 month retention period will be adopted in the new Bill.

#### **COMMENT**

The rationale behind the retention of communications data is to allow access to such data for law enforcement authorities to assist with investigations into criminal activities, particularly terrorism. This would seem uncontroversial. Civil liberties groups, however, do not like to see such rules mandated. Nonetheless, from the industry perspective, a new regime mandating retention to this extent will arguably make little difference. Most communications providers already retain communications data for billing purposes and customer records, so will be unaffected by the new regime. Compelling ISPs and telcos to hand over communications data to a national database is, however, a different matter and, in the view of many, constitutes a significant security risk at odds with the overriding objective of combating terrorism. The UK Government plans to publish the Bill in draft for consultation later this year.

## **COMMERCIAL**

### **Unfair commercial practices and misleading and comparative advertising**

The much heralded Consumer Protection from Unfair Trading Regulations (CPRs) and the Business Protection from Misleading Marketing Regulations (BPRs) came into force in the United Kingdom on 26 May 2008. The CPRs implement the Unfair Commercial Practices Directive (2005/29/EC) (UCPD) while the BPRs implement the consolidated Directive on misleading and comparative advertising (2006/114/EC), replacing the Control of Misleading Advertising Regulations 1988/915.

#### **BACKGROUND**

The UCPD was adopted on 11 May 2005 and came into force on 12 December 2007, by which date it should have been transposed into UK law, but, alas, it took a further six months to implement. Better late than never, the CPRs implement in the United Kingdom the UCPD’s prohibitions on unfair commercial practices, such as misleading and aggressive marketing and include a blacklist of 31 practices that will be considered unfair in all circumstances. The final version of the CPRs reflects the Government’s response to issues raised following its May 2007 consultation on draft implementing regulations. For example, there was strong opposition to the

substitution of the term “typical consumer” for the “average consumer” as used in the UCPD. Consultation respondents argued that grouping together an average consumer, the average member of a targeted group and the average member of a clearly identifiable group of vulnerable consumers on an equal footing within the definition of a “typical consumer”, would effectively mean that every practice would need to be judged from the perspective of the average member of a vulnerable group. The Government accepted that the new terminology risked causing confusion and, as a result, the revised CPRs revert to the term “average consumer”. By way of clarification, they state that, in determining the effect of a commercial practice on an “average consumer”, account is to be taken of such a person being reasonably well informed, reasonably observant and circumspect.

The UCPD also narrowed the scope of the Misleading and Comparative Advertising Directives (84/450/EEC and 97/55/EC respectively) to cover advertising affecting businesses only and not consumers. The BPRs will implement the consolidated Directive that replaced those Directives.

### COMMERCIAL PRACTICES REGULATIONS

The CPRs introduce, for the first time into UK law, a general duty on all businesses not to trade unfairly with consumers. The Regulations affect all businesses that supply or market goods or services to consumers. Businesses are now obliged not to mislead consumers through acts or omissions, such as misleading pricing and price scams, or subject them to aggressive commercial practices such as high pressure selling techniques. The CPRs transpose the general duty under the Directive not to trade unfairly before, during or after a commercial transaction. They replace, amongst other things, the Trade Descriptions Act 1968 and Part III of the Consumer Protection Act 1987.

The CPRs prohibit “unfair commercial practices”. These fall into five categories. The first covers practices that under the “general prohibition” contravene the requirement of professional diligence and materially distort, or are likely to materially distort the economic behaviour of the average consumer with regard to the product. The other categories are misleading actions, misleading omissions, aggressive practices and those set out in the so-called blacklist. There are 31 commercial practices on the blacklist that are considered to be unfair in all circumstances and include, for example

- Falsely stating that a product will be available for a very limited time—*i.e.*, so as to elicit an immediate decision from consumers and deprive them of an informed choice (bait advertising).
- Falsely claiming that a trader is about to go out of business or move premises when he is not.

- Describing a product as “free” or “gratis” if the consumer has to pay anything other than collecting or paying for delivery of the item.

A misleading action is one that contains false information or information that is likely to deceive, concerning certain specific matters such as the nature and main characteristics of the product (availability, origin, delivery etc) and the rights of the trade (including IP rights), and that is likely to cause the average consumer to take a transactional decision he would not otherwise have taken. A commercial practice will also be a misleading action if it concerns any marketing of a product or service (including comparative advertising) that creates confusion with any products, trade marks, trade names or other distinguishing marks of a competitor.

A commercial practice will be a misleading omission under the CPRs where it would cause the average consumer to take a transactional decision (he would not otherwise have taken) as a result of omitting or hiding material information, providing material information that is unclear, unintelligible, ambiguous or untimely, or fails to identify its commercial intent (unless this is already apparent). The CPRs do, however, in this respect, make allowances for the limitations of the medium used to communicate the commercial practice.

Part 3 of the CPRs sets out the offences relating to unfair commercial practices. Misleading actions and omissions and aggressive practices are, for example, all strict liability offences punishable with a fine and, on indictment, imprisonment for up to two years. Directors and other company officers proven to have consented, connived in or been neglectful in relation to any unfair commercial practice will also be guilty of an offence under the Regulations. There is a due diligence defence against the strict liability offences, designed to protect newspapers, advertising agencies, *etc*, who have published an advert with no reason to suspect that its publication would amount to an offence.

### BUSINESS PROTECTION FROM MISLEADING MARKETING REGULATIONS

The BPRs replicate the conditions for comparative advertising in the Comparative Advertising Directive. A further condition is that comparative advertising must not be a misleading action or omission under the CPRs. The BPRs also carry a general prohibition against advertising that misleads other traders. This is defined as advertising that in any way, including its presentation, deceives or is likely to deceive the traders to whom it is addressed or whom it reaches, and by reason of its deceptive nature, is likely to affect their economic behaviour, or, for those reasons, injures or is likely to injure a competitor. Factors to be taken into account in determining whether advertising is misleading include the characteristics of the products (such as availability, *etc*), the price or the manner in which it is calculated, conditions of supply and the nature,

attributes and rights of the advertiser. The latter expressly includes the ownership of industrial, commercial or intellectual property rights.

Misleading advertising under the BPRs is an offence, punishable with a fine and, on indictment, imprisonment for up to two years. Conniving directors will also be found guilty of the offence and “liable to be proceeded against and punished accordingly”. Again, there are due diligence and innocent publication defences.

#### COMMENT

The BPRs will be enforced by the Office of Fair Trading and Trading Standards who will have the power to take proceedings for an injunction to secure compliance. There will also be a power to enter premises with or without a warrant to investigate any breaches of either the CPRs or BPRs. Businesses will not, however, have the power to enforce the Regulations privately, although in its response to the consultation, the Government stated that this would be kept under review.

Whilst the CPRs herald a raft of repeals, specific consumer protection legislation based on EU rules remains in place. For example, the Distance Selling Regulations (2000/2334) will remain the primary system of rules governing non-face-to-face business-to-consumer trading online. The CPRs, however, provide a safety net of broader protection in relation to vulnerable consumers, at whom particular products or services are targeted and who are likely to be affected by the trader’s behaviour.

An interesting aspect of the BPRs, and one that no doubt will be monitored closely, is its interaction with the enforcement of intellectual property rights, false attributions of which may amount to misleading advertising under regulation 3. This is a matter that, although it has no direct cause of action under the BPRs, lawyers acting for IP rights holders will be keen to exploit.

## SPORT

### **Sport White Paper: Parliament, specificity of sport and the FIFA 6+5 rule**

The European Parliament (EP) welcomed the European Commission’s plans for a specific EU sport policy and the majority of the actions proposed in the Commission’s July 2007 White Paper and accompanying Pierre de Coubertin Action Plan. However, the EP has subsequently raised a number of concerns in its Report on a White Paper on Sport, adopted on 8 May 2008. In particular, the Members of The European Parliament (MEPs) urge the Commission to respect sport’s specificity and to create clear guidelines as to how EU

rules should be applied. They also harbour concerns over player selection and the “6+5 rule” that the Fédération Internationale de Football Association (FIFA) approved at its congress in Sydney on 30 May.

#### BACKGROUND

The Commission published its White Paper on Sport (the White Paper) on 11 July 2007, after two years of extensive consultations. The formal aim of the White Paper was to provide strategic orientation on the role of sport in the European Union. The topics covered by the White Paper were structured into three parts: the societal role of sport; the economic dimension of sport; and the organisation of sport. The third mainly covered governance issues of interest to professional sport. In the Commission’s words, the aim is to develop the concept of specificity of sport within the limits of existing EU competences. Other issues covered in the White Paper included the compatibility of quotas for “home grown” players, the collective selling of media rights and the need for regulation of players’ agents at EU level and with EU rules.

#### SPECIFICITY

The White Paper was careful not to weaken the application of EU law to sport. No block exemption to EU law was proposed. With regard to the regulatory aspects of sport, the Commission instead endorsed the approach of the European Court of Justice (ECJ) in *Meca Medina v Commission* C-519/04P [2006] ECR I-6991 that the assessment of whether sporting rules are compatible with EU competition law is to be made on a case by case basis. The Commission noted that the ECJ dismissed the notion of “purely sporting rules” as irrelevant for the question of the applicability of EU competition rules to the sport sector. The Commission felt that there was no basis for general guidelines on the application of competition law to the sport sector.

The EP’s report, however, says that, with a view to ratification of the Lisbon Treaty, the role of sport in Europe must be given a “strategic orientation” and the application of Community law must be clarified. The MEPs are asking the Commission to “respect sport’s specificity” and to draw up clear guidelines as to how EU rules should be applied. The MEPs also request a special budget line in the 2009 budget for preparatory actions in the field of sport, given that the Lisbon Treaty, if ratified, foresees incentive measures in the area of sport. The MEPs nevertheless agree with the Commission that most sporting challenges can be addressed through self-regulation and that the autonomy of professional sport’s representative structures at national level, such as the leagues, should be preserved.

#### PLAYER SELECTION

In its report, the EP calls on Member States and sports

associations not to introduce new rules that could lead to discrimination on the basis of nationality, such as the “6+5 rule”. Under this proposed rule, six players in each team on the field at the beginning of a match will have to be from the country of the club they are playing for. Instead, the MEPs call on the Commission to recognise the legality of measures that favour a minimum number of locally trained players, and favour the Union of European Football Associations (UEFA) rule on “home grown” players. In accordance with this, a minimum number of players in a team should be trained by the club or in the same league (*i.e.*, eight out of 25 players, of which four are trained by the club and four are trained in the same league). This rule does not contain any nationality conditions. It applies in the same way to all players and all clubs participating in competitions organised by UEFA.

The MEPs do, however, urge the Commission to adopt a stricter application of the FIFA regulations banning transfers within the European Union of players aged under 16 and endorsing the principle that players should sign their first professional contract with the club that has trained them.

On the other hand, in the White Paper, the Commission considered that the rules setting out quotas for home grown players, requiring teams to include a certain number of locally trained players, may be acceptable, provided they do not lead to any direct discrimination. At the same time, any indirect discrimination must be proportionate to the legitimate objective of securing compatibility with the EC Treaty.

Subsequently, however, the European Commission has published an independent study on UEFA’s home-grown players rule, in which the Commission says that the UEFA approach appears to comply with the principle of free movement of workers while promoting the training of young European players. The Commission also notes that the measures are designed to support the promotion and protection of quality training for young footballers in the European Union. The Commission does concede that there is a risk that the UEFA rule will lead to indirect discrimination on the basis of nationality, as young players attending a training centre at a club in a Member State tend to be from that Member State rather than from other EU countries. However, the message is that the objectives underlying UEFA’s rule, namely promoting training for young players and consolidating the balance of competitions, are legitimate objectives of general interest.

## TV RIGHTS

To ensure that not only the biggest clubs will benefit from the selling of the rights and to achieve equitable redistribution of income between the clubs within and between the leagues and among professional and amateur sport, the EP report recommends that Member States and national sports federations and leagues introduce collective selling of media

rights. They also acknowledge the right of Member States to ensure access to television coverage of sport events of major interest to the public (the Olympic Games, World Cup, *etc.*) and, in this respect, support Member States in drawing up a list of events of major importance that should be on free-to-air television under Article 3a of the Audiovisual Media Services Directive.

## Doping

The MEPs suggest that policies to prevent and combat doping should include avoiding excessively busy sports calendars that put pressure on athletes. They also call on professional clubs and sports organisations to adopt a pledge to combat doping and invite the Commission to consider treating trade in illicit doping substances in the same way as trade in illicit drugs.

## DEREGULATION OF GAMBLING MARKETS

The MEPs voice concern over the possible deregulation of lotteries and gambling markets. They consider it to be appropriate to use lottery profits for purposes that are in the public interest. They also call on the Commission and Member States to adopt regulatory measures to ensure that sport is protected from any improper influence relating to betting.

## COMMENT

To summarise, the MEPs would like stricter rules on doping, no quotas for football players and a fair distribution of lottery profits. Of particular interest, however, is the stance taken by the EP on the specificity of sport, an issue of which the Commission appeared keen to wash its hands in light of the ECJ decision in *Meca-Medina*. However, there appears to be a degree of divergence on the matter. It is therefore hoped that the Commission will heed the EP’s call for clarity over the application of Community law to sport, the specificity of which is clearly a matter of contention between the European Parliament and the EU executive.

There is preliminary scheduling for a European Sport Forum in November 2008 to discuss the White Paper and possible new initiatives based on the new provisions in the Lisbon Treaty. A structured dialogue is also being developed with sport organisations, such as European sport federations, European and national umbrella organisations including the European and national Olympic Committees, and European non-governmental sport organisations.

## DOMAIN NAMES

### MYSPACE.CO.UK: NOT ABUSIVE, JUST LUCKY

Overturning the Expert’s decision, on 18 April 2008, the Nominet Appeal Panel ruled in *Myspace Inc v Total Web Solutions Ltd* (DRS 04962) that the *myspace.co.uk* domain name registered by Total Web Solutions does not have to be

transferred to MySpace Inc, the owners of the hugely popular social networking website myspace.com, as the registration of the domain name was not abusive under the Nominet Dispute Resolution Service (DRS) Policy.

#### BACKGROUND

The Respondent, Total Web Solutions (TWS), had supplied internet services since it was established in 1995 and managed around 80,000 domain names for its customers, registering around 2000 new domain names each month. TWS registered myspace.co.uk (the Domain Name) in August 1997 in order to provide its clients with a cheap and easy homepage and email addresses. It also registered and used the domain name bigspace.co.uk along with the myspace.co.uk domain, as, according to TWS, it wanted to give clients their own web space and email addresses.

In or around November 2003, TWS placed a holding page at a Sedo operated, revenue earning website connected to bigspace.co.uk and, in July 2004, it connected the Domain Name to the Sedo bigspace.co.uk site. This holding page contained links to other websites. During the summer of 2005, TWS requested that Sedo change the “bigspace.co.uk” arrangement and set up a parking page dedicated to the Domain Name. In October 2005, the Sedo parking site to which the Domain Name related contained links to Myspace and/or other social networking related links. The links on the site included “social networking”, “photo sharing”, “chat forum”, “xxxmovies” and “sex”, “MySpace – Official Site”, “Make Friends Now Dammit”, “Myspace Friend Adder”, “Social Network Software” and “Social Networking Sites”.

The complainant, MySpace Inc, is the owner of the MySpace business founded in 2003, which is essentially a series of interlinking social networking websites with over 195 million user profiles and, on average, over 300,000 new registrations each day. In the United Kingdom alone there are over 10 million users. MySpace Inc was purchased in July 2005 by News Corporation and MySpace UK was officially launched in May 2006. MySpace Inc is also the owner of the U.S. trade mark MYSPACE, registered in December 2006.

On two separate occasions, Myspace attempted to purchase the Domain Name from TWS with sale price demands by TWS varying from a very reasonable U.S.\$100 to over U.S.\$400,000.

Myspace filed an initial complaint with Nominet stating that the registration was an abusive registration under the DRS policy. The Expert found against TWS as he believed that TWS had knowledge of Myspace prior to Myspace filing its complaint in August 2007 and had purposely changed its use of the Domain Name in order to take advantage of the “Myspace phenomena”. This use by TWS in combination with the trade

mark rights owned by Myspace was, in the Expert’s view, enough to render the registration by TWS abusive.

#### THE APPEAL

TWS filed an appeal to which they also attached a Formal Complaint claiming that the case had been unfairly handled by Nominet staff and that Nominet staff had failed in their duty of neutrality and tried to cover it up. TWS further repeated their arguments raised in the initial complaint, namely that

- The name was wholly descriptive.
- They had registered the Domain Name long before Myspace existed.
- They had done nothing to change the use of the Domain Name since they became aware of the existence and notoriety of Myspace.
- The Expert was wrong to find that there was a change of use by TWS of the Domain Name in 2005.

Myspace’s response largely repeated its original arguments that it had registered rights in the “myspace” name by virtue of its trade marks, and that TWS had changed its activities in using the Domain Name once it became aware of the prominence of Myspace during the summer of 2005. Even though the Domain Name may have been directed to a Sedo parking site for some time, the content of the site itself had changed substantially at the time that Myspace began to reach global popularity.

The Appeal Panel immediately dismissed the Formal Complaint by TWS that Nominet had acted inappropriately and held that such a Formal Complaint would be of no relevance to the merits of the appeal. The Panel also disagreed with TWS that the term “myspace” was entirely descriptive of the Myspace business. However, the Panel said that it did not consider TWS’ registration to be abusive. According to the Panel, Myspace had not established to its satisfaction that TWS’ registration was being or was used in an abusive fashion. Myspace argued that TWS’ use of the Domain Name was or had been abusive, basing their arguments on the belief that as soon as TWS became aware of the publicity associated with the acquisition of Myspace by News Corporation in July 2005, TWS changed what had hitherto been an innocent, unobjectionable use of the Domain Name to a use calculated to exploit the fame of the Myspace trade mark.

The Appeal Panel reviewed in detail the use of the “parking site” at Sedo by TWS but Myspace was unable to prove to the Panel that TWS’ activities were abusive, despite the Panel’s “grave suspicions” that the timings and actions by TWS were just too much to be coincidence. Ultimately, the Appeal Panel held that registration of domain names is on a first-come-first-served basis, therefore, there should not be a duty on a

registrant, who has merely had the good fortune to register in good faith a name that subsequently acquires notoriety.

The Panel was not satisfied on the evidence before it that the Domain Name in the hands of TWS was an abusive registration within the terms of the DRS Policy. The Appeal Panel believed that, ultimately, the best and most just result would be for Myspace to litigate the issue in court.

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