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European IP Bulletin

The Intellectual Property, Media & Technology Department

Issue 52, July 2008

PATENTS

A patent too far

In *Les Laboratoires Servier v Apotex Inc* [2008] EWCA Civ 445, the English Court of Appeal dismissed an appeal against a finding of invalidity of a patent, finding that it was clearly unpatentable.

BACKGROUND

The appeal was from one of the last decisions of the late Lord Justice Pumfrey, holding that Servier's patent was invalid for lack of novelty and obviousness, but that if the patent had been valid, Apotex's product would have infringed. Pumfrey LJ had also refused to continue an interim injunction pending appeal on the grounds that he considered there was no real prospect of success by Servier. A separate application to the Court of Appeal regarding the continuation of the injunction was refused on the grounds of no real prospect of success.

The patent was for a particular crystalline form of the tert-butylamine salt of perindopil, a process for making it and for pharmaceutical compositions containing it. The patent, using its own nomenclature, called this particular crystalline form of salt, the a (alpha) form. It claimed that the a form "especially exhibits valuable characteristics of filtration, drying and ease of formulation". The patent did not say with what other crystalline form the comparison was being made or why this form was "especially valuable". When asked about this, Servier's counsel could provide no answer.

The priority date of the patent was 6 July 2000. The first and basic patent for perindopril and its tert-butylamine salt (without any indication or specification of crystalline form) had a priority date of 2 October 1980. Servier's pharmaceutical compositions containing the salt have been on the market since the late 1980s (the first, French, marketing authorisation was June 1988). The basic patent was effectively extended by a supplementary protection certificate that expired on 21 June 2003. The market for the product is vast, with sales in the United Kingdom alone at over £70m per year at Servier's patent protected price.

Servier sought and obtained additional protection for perindopril and the tert-butylamine by way of a patent filed on 16 September 1988, expiring on 16 September 2008. This was for "the industrial synthesis of perindopril" and covered a process for making it and its tert-butylamine salt. Finally, Servier sought yet further protection for the tert-butylamine salt of perindopril by applying for three patents on 6 July 2000, covering the only three crystalline forms (called by Servier , a , ß and ?) which, to date, are known.

The Court of Appeal was shown the patent for the ß form, which claimed that this form (like the a form) also "especially exhibits valuable characteristics for formulation" without saying what these characteristic were supposed to be. Pumfrey LJ described the fact that there were simultaneous patent applications for the other two forms as "curious", which, according to Jacob LJ, was shorthand for saying that Servier were simply trying to extend their monopoly in the salt.

THE APPEAL

Unusually, it was decided to dismiss the appeal without the need of even hearing Apotex's arguments as it was immediately clear to the Court of Appeal that Servier's patent was plainly invalid and there was no need to hear any evidence regarding the infringement issue.

Jacob LJ went on to further hold that, like Pumfrey LJ, he believed that the patent was invalid and very plainly so.

The only real piece of prior art cited against the patent was actually one of the earlier Servier patents. Jacob LJ said that he had never seen a patent claim that contained a limitation "for the industrial synthesis" and he was perplexed as to what it added. He said "it is not as though it is suggested that the chemistry is any different in a laboratory or any other scale. The reacting or crystallising molecules do not know about the size of the pot they are in."

One might have thought that would be an end to the case. After all, if the cooling regime was obvious, its product, the a form would be too. But Servier made a further, valiant attempt to save the product claim. They submitted that, even if you used the cooling conditions specified in the patent, you do not always get the a form. Although generally you would, sometimes you would not. According to Jacob LJ the premise was completely wrong, but even if it were not, the process claim would be invalid. The patent taught that this cooling process would produce what the patentee called the a form. If the process did not do so reliably, then the patent would be insufficient. It would not, according to Article 83 of the European Patent Convention, "disclose the invention in a manner sufficiently clear and complete for it to be carried out by a person skilled in the art". Jacob LJ did not think it would be a satisfactory answer to the sufficiency objection to say "well it works most times", and even if it were more likely than not that the a form would be produced, the claim would be obvious. According to the Court of Appeal "it would be a monstrous thing if the law were otherwise. People are entitled to implement old recipes in obvious ways".

In reviewing the novelty aspects of the invention, particularly for that of Claim 1, a near avalanche of information was provided in an attempt to "blind the Court with science". However, once the Court dug deeper into the evidence submitted, and with help of some expert witnesses who Servier was simply incapable of contradicting (in one case Servier simply left the expert witness unchallenged), both the Court of First Instance and the Court off Appeal found the patent also to be invalid for lack of novelty.

The appeal was dismissed as according to Lord Justice Jacob it was completely "without merit".

COMMENT

Never has such a strong and clearly angry rebuke regarding the invalidity of a patent been handed down by the Court of Appeal. This is an interesting case as so many pharmaceutical companies are attempting to secure as many interrelated patents for their products as possible. This case illustrates what can happen when one attempts one "patent too far".

EPO Enlarged Board of Appeal invites the public to determine whether stem cells are contrary to morality

On 24 and 25 June 2008, in a public hearing on Wisconsin Alumni Research Foundation (WARF) Stem Cell patent application (G-02/06), the European Patent Office (EPO) took the usual step of asking the public to assist it in making a determination regarding a patent application involving an invention in the controversial area of stem cell patenting.

BACKGROUND

In a patent application for the so-called WARF Stem Cell Patent, relating to a preparation of primate (including human) embryonic stem cells, the EPO arranged for public oral proceedings on 24 and 25 June 2008 before the Enlarged Board of Appeal. The hearing concerned an appeal against the rejection of European Patent application No. 0770125 under the title "Primate embryonic stem cells" filed by WARF in 1995. The patent application described a method by which primate embryonic stem cells derived from an embryo can be maintained *in vitro* for a long period of time without losing their potential to differentiate into any cell of the body.

On 13 July 2004, an EPO Examining Division refused to grant a patent for the WARF application on the grounds that it was contrary to the European Patent Convention (EPC), citing as one of its central reasons that the disclosed method of obtaining stem cells used as the starting material a primate (including human) embryo that was destroyed in the process. According to the patent examiner, this contravened the provisions of the EPC and EU Directive 98/44/EC for the legal protection of Biotechnological inventions (the Biotechnology Directive) which imposes an obligation on the EPO to ensure that no European patents shall be granted for inventions concerning uses of human embryos for industrial or commercial purposes. In other words, the patent examiner stated that, as it involved stem cells that could conceivably include human stem cells, the patent was against the morality clause of the EPC.

APPEAL AND REFERENCE

WARF subsequently appealed the examiner's decision. In 2005, the Technical Board of Appeal of the EPO referred a number of points of law to the EPO's Enlarged Board of Appeal to clarify certain open legal points regarding the patentability of human embryonic stem cells under the EPC. In order for the Enlarged Board to make a proper assessment of the science and the moral implications it invited comments from the President of the EPO, the patent applicant and the public at large.

The questions for debate were

1. Does [Rule 28(c)] EPC apply to an application filed before the entry into force of the rule (i.e., the Biotechnology Directive)?

2. If the answer to question 1 is yes, does [Rule 28(c)] EPC forbid the patenting of claims directed to products (here: human embryonic stem cell cultures) which—as described in the application—at the filing date could be prepared exclusively by a method which necessarily involved the destruction of the human embryos from which the said products are derived, if the said method is not part of the claims?

3. If the answer to question 1 or 2 is no, does Article 53(a) EPC forbid patenting such claims?

4. In the context of questions 2 and 3, is it of relevance that after the filing date the same products could be obtained without having to recur to a method necessarily involving the destruction of human embryos (here: e.g. derivation from available human embryonic cell lines)?

COMMENT

Unfortunately, a decision was not handed down on the day, but is going to be delivered as a reference document to allow the Technical Board of Appeal to then properly assess the WARF patent application in view of the EPC and Biotechnology Directive. It therefore remains to be determined whether the patent application covers viable subject matter capable of patentability.

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TRADE MARKS

No free ride for Mineral Spa

In *Mülhens GmbH & Co KG v OHIM* (T-93/06) unreported, the Court of First Instance (CFI) upheld an opposition to an application to register the word mark MINERAL SPA as a Community trade mark (CTM) for soaps and cosmetics, on the grounds that it would take unfair advantage of the reputation of an earlier Benelux word mark SPA registered for mineral water. The CFI held that the Applicant could not take unfair advantage of the image of the earlier trade mark and the message conveyed by it, in that the goods covered by the mark applied for would be perceived by the relevant public as bringing health, beauty and purity.

BACKGROUND

Mülhens applied to register the word mark MINERAL SPA for "soaps, perfumeries, essential oils, preparations for body and beauty care, preparations for the hair, dentifrices" in Class 3. Spa Monopole filed an opposition under Article 8(5) of the Community Trade Mark Regulation (40/94/EC) on the grounds that the mark would be detrimental to, or take advantage of, the distinctive character or the repute of its earlier Benelux mark SPA registered for mineral water and other beverages in Class 32.

The Opposition Division of the Office for Harmonization in the Internal Market (OHIM) upheld the opposition on the ground that the mark applied for would likely be detrimental to, or take unfair advantage of, the distinctive character or the repute of the earlier trade mark within the meaning of Article 8(5).

OHIM's Second Board of Appeal upheld that decision. The Board decided that the relevant public was the general public, and that the earlier mark enjoyed a huge reputation in the Benelux for mineral water. It held that the word "mineral" was descriptive of some component of the goods covered by the trade mark application and that the word "spa" could constitute the most distinctive element of the trade mark applied for. This was as a result of the reputation of the earlier trade mark SPA in the Benelux, where that word had acquired a secondary meaning and a strong distinctive character in relation to mineral water. By extension, it had developed a secondary meaning with respect to goods having a certain nexus with mineral water.

According to the OHIM Board of Appeal, since the earlier trade mark was included in the trade mark applied for, the conflicting marks were sufficiently similar visually, aurally and conceptually for the average consumer to establish a link between them without, however, confusing them. On account of that link, the Board considered that it would be quite likely that the Applicant would take unfair advantage of the reputation and the consistent selling power of the earlier trade mark. In the absence of due cause, the Board upheld the opposition. Mülhens applied to the CFI to annul the Board's decision.

COURT OF FIRST INSTANCE

The CFI dismissed Mülhens' application. The Court held that, according to Article 8(5), a mark with a reputation is protected with regard to any application for an identical or similar mark that might adversely affect its image, even if the goods or services covered by the mark applied for are not similar to those for which the earlier mark with a reputation has been registered.

The Court held that the Board was correct to find that the relevant public was composed of the general public in the Benelux. This was due to the fact that both the goods covered by the earlier mark and those covered by the mark applied for were everyday consumer items. The marks were also similar at a visual and conceptual level, as the average consumer in the Benelux would probably focus his attention on the second component of the expression "mineral spa" since the word "mineral" described the components of the goods in question on account of the common use of minerals in cosmetics. Moreover, on a conceptual level, the average consumer in the Benelux would probably associate the mineral water marketed under the SPA trade mark with the word SPA contained in the mark applied for. Therefore a link had been established in accordance with Article 8(5).

The CFI also held that, on the facts, the reputation of the earlier trade mark in the Benelux for mineral water was, at the very least, extremely significant. The mark had been used for a number of years; SPA water was available throughout the territory of the Benelux with a strong presence in both mass and small-scale distribution; Spa Monopole was the leader in the market for mineral water with a market share of 23.6 per cent; and the company had made significant advertising investments and sponsored a number of sports events.

The Court was also satisfied that the Board was correct in its assessment that Mülhens was quite likely to take unfair advantage, without due cause for use, of the repute of the earlier trade mark. In order to fall within Article 8(5), it is sufficient that there is a risk that the use without due cause of the mark applied for takes unfair advantage of the repute of the earlier mark. In other words, that the image of the mark with a reputation of the characteristics that it projects are transferred to the goods covered by the mark applied for. The result is that the marketing of those goods is made easier by the association with the earlier mark with a reputation.

In the Court's view, the risk of such a transfer had been established in this case. First, the relevant public, *i.e.*, the general public in the Benelux, might be the same as that targeted by the earlier mark. Secondly, the goods sold by

Mülhens were not dissimilar to the goods sold by Spa Monopole—thermal waters, cosmetic products, soaps and essential oils—and could be used for skin and beauty treatments. In addition, mineral waters and mineral salts could be used in the production of soaps, other cosmetic products and preparations for the hair. Furthermore, mineral water operators sometimes sell cosmetic products comprising mineral water. Finally, the image of the earlier mark and the message that it conveyed related to health, beauty, purity and richness in minerals. That image and that message could apply also to the goods in respect of which registration was sought, since they were used to preserve and improve health or beauty.

Therefore, were this new mark to be granted, Mülhens could take unfair advantage of the image of the earlier mark and the message conveyed by it. Accordingly, the risk of a free-riding transfer of the advertising effort made by the proprietor of the earlier mark to the mark applied for had been established.

COMMENT

Mülhens no doubt feel somewhat aggrieved. MINERAL SPA is strongly evocative of health and vitality, characteristics any manufacturer would like to have associated with its soaps and cosmetics. Unfortunately for Mülhens, the fact that those characteristics are also associated with mineral water meant that there was a risk that the reputation in Spa Monopole's mark would transfer to Mülhens' products. Paradoxically, as Mülhens vehemently contended, the word "spa" is arguably descriptive and possibly generic of mineral water and through its connection with health resorts, of health and fitness. That, however, worked against Mülhens as it virtually guaranteed that the relevant public, whilst not actually confused, would perceive a link between the conflicting marks. Not only were the marks therefore conceptually similar, but the concept of health that they shared carried through to goods that were otherwise dissimilar.

"Euro" marks—distinctive character and descriptiveness

In *Eurohypo AG v OHIM* (C-304/06) [2008], Eurohypo's gallant (and expensive) campaign to register its name as a Community trade mark (CTM) for financial services, has failed. Whilst the European Court of Justice (ECJ) set aside the Court of First Instance (CFI) decision rejecting the mark on the basis that the CFI had assessed distinctiveness solely by reference to descriptiveness, the ECJ ultimately held that the mark EUROHYPO did indeed lack distinctive character under Article 7(1)(b) of the Community Trade Mark Regulation (40/94/EC).

BACKGROUND

Eurohypo applied to register the word sign EUROHYPO as a CTM for various financial services in Class 36. The Office for Harmonization in the Internal Market (OHIM) rejected the application on the basis that the mark was devoid of distinctive character and descriptive under Article 7(1)(b) and (c) respectively.

The Fourth Board of Appeal of OHIM annulled the examiner's decision as regards "financial analysis; investment affairs; insurance affairs" but upheld it as regards "financial affairs; monetary affairs; real estate affairs; provision of financial services; financing". Essentially, the Board held that the components "euro" and "hypo" contained a clearly understandable indication of the characteristics of these services ("hypo" would be understood by the average consumer as an abbreviation of the German word for mortgage, *hypothek*) and that the combination of those two components in one word did not render the mark less descriptive. On this basis, it held that the word sign EUROHYPO was descriptive and that it was, therefore, devoid of any distinctive character within the meaning of Article 7(1)(b), at least in German-speaking countries, and that that ground was sufficient, under Article 7(2), to justify a refusal of protection.

The CFI upheld the Board's decision. The Court accepted that a word mark that is descriptive of the characteristics of the goods or services concerned for the purposes of Article 7(1)(c) is, on that account, necessarily devoid of any distinctive character in relation to those goods or services.

The CFI considered EUROHYPO to be a straightforward combination of two descriptive elements, which did not create an impression sufficiently far removed from that produced by the mere combination of the elements of which it was composed to amount to more than the sum of its parts. EUROHYPO was not "a lexical invention which had an unusual structure" as per BABY-DRY [2001] ECR I-6251.

Additionally, the claim based on the widespread use of the mark EUROHYPO was rejected, as this was the first time it had been raised. Consequently, the Court dismissed the action in its entirety.

On appeal, Eurohypo criticised the CFI for failing to take into account the overall impression produced by the EUROHYPO mark. Eurohypo also claimed that the CFI incorrectly interpreted the criteria for refusal of registration set out in Article 7(1)(b) and (c). Finally, Eurohypo maintained that the Court incorrectly applied the principles identified in BABY-DRY. The ECJ set aside the CFI judgment on the basis that it was vitiated by an error in law in the interpretation of Article 7(1)(b). The ECJ nevertheless refused registration on the basis that EUROHYPO did indeed lack distinctive character.

COMPOUND MARKS

As regards compound marks, the ECJ noted that the assessment of distinctive character cannot be limited to an evaluation of each of the mark's words or components, considered in isolation, but must be based on the overall perception of that mark by the relevant public and not on the presumption that elements individually devoid of distinctive character cannot, on being combined, have a distinctive character (see *SAT.1 v OHIM* (C-329/02 P) [2004] ECR I-8317). The mere fact that each of those elements, considered separately, is devoid of any distinctive character does not mean that their combination cannot present such character (*BioID v OHIM* (C-37/03 P) [2005] ECR I-7975). However, the Court did not accept that, as Eurohypo argued, the CFI had failed to apply these principles by assessing the overall impression produced by the mark merely as a secondary issue.

ERROR OF LAW

The ECJ did accept, however, that the CFI had erred in law in applying Article 7(1)(b). The ECJ stressed that, while the CFI has had occasion to find a degree of overlap between the respective scope of the absolute grounds for refusal to register a trade mark set out in Article 7(1)(b) to (d), each of the grounds for refusal to register listed in Article 7(1) is independent of the others and requires separate examination (see *Henkel v OHIM* (C-456/01 P and C-457/01 P) [2004] ECR I-5089).

The CFI had assessed the distinctive character of EUROHYPO by carrying out solely an analysis of its descriptive character within the meaning of Article 7(1)(c). Consequently, its judgment contained no separate examination, as required, of the ground for refusal laid down in Article 7(1)(b). The CFI assessed the mark EUROHYPO without, in particular, taking into account the public interest that Article 7(1)(b) aims specifically to protect, *i.e.*, to guarantee the identity of the origin of the designated product or service.

Moreover, the CFI found that a mark composed of descriptive elements could meet the conditions for registration where the word has become a part of everyday language and has acquired a meaning of its own. While that criterion was relevant in the context of Article 7(1)(c), it could not form a basis for the interpretation of Article 7(1)(b). Thus the CFI's judgment was vitiated by an error in law in the interpretation of Article 7(1)(b).

DISTINCTIVE CHARACTER

Having quashed the CFI decision, the ECJ was free to give final judgment. On the basis that the relevant services were aimed at all consumers and the absolute ground for refusal was invoked only in relation to one of the languages spoken in the European Union, namely German, the relevant public against which the distinctive character of the mark must be measured is the average German-speaking consumer: reasonably well informed and reasonably observant and circumspect.

In the ECJ's view, the relevant public would understand the word sign EUROHYPO as referring, as a whole and in general, to financial services requiring real securities and, in particular, to mortgage loans paid in Euros. Furthermore, there was no additional element that would allow the view to be reached that the combination, created by the current and usual components EURO and HYPO, was unusual, or might have its own meaning which, in the perception of the relevant public, distinguished the services offered by the appellant from those of a different commercial origin. Therefore, the relevant public would perceived the mark as providing details of the type of services which it designated and not as indicating the origin of those services. As such, the mark lacked distinctive character for the purposes of Article 7(1)(b).

COMMENT

It is becoming increasingly difficult to register a term with the word "Euro" in it. The BABY-DRY test of "lexical invention which has an unusual structure" is less likely to be met by compound marks featuring "Euro" as a prefix as use of that word in that way becomes increasingly conventional. In that sense, the word "Euro" is of neutral, if not negative, value in an assessment of distinctive character and is almost by default descriptive to a degree for most services. Unless the other elements of the mark are particularly distinctive, "Euro" marks are bound to struggle for registration. Apart from that, the case is valuable for the ECJ's clarification of the relationship between Article 7(1)(b) and (c).

COPYRIGHT

Claim for implied assignment of copyright in software development agreement

On 4 June 2008, the English Court of Appeal upheld a ruling of Deputy Judge Robert Ham QC in Meridian *International Services Ltd v Richardson* [2008] EWCA Civ 609 that it was neither necessary nor obvious to imply into an oral agreement a term that the copyright in computer software for a financial forecasting system belonged to the Claimant. The Court dismissed all of the Claimant's arguments on appeal, including the submission that the "necessity" sufficient to justify the implication of such a term does not have to be mutual.

BACKGROUND

In September 2005, Meridian Associates Ltd produced a paper for the Consumer Healthcare UK division (CHUK) of GlaxoSmithKline (GSK) setting out various proposals for the introduction of an integrated financial forecasting system called Project Vista. In October 2005, Meridian Associates went into creditors' voluntary winding up and the promotion of Project Vista was continued by Meridian International Ltd, which was incorporated on 1 September 2005. Project Vista led to the creation of computer software called StratX for which the source code was written by the third Defendant, Mr Aldersley, after 9 January 2006. The Project Vista contract was executed by Meridian International and CHUK in April 2006.

On 9 January 2006, a meeting was held at which an oral agreement was made, according to which the second Defendant, IP Enterprises Ltd (a company incorporated on 12

October 2005 by the first Defendant, Mr Richardson) and Mr Aldersley, would complete the outstanding work on Project Vista and StratX. At the meeting, Mr Bobeckyj, the founder and principal shareholder in both Meridian Associates and Meridian International, assured Mr Richardson and Mr Aldersley, to whom substantial sums were due by way of salary and expenses, that they would be paid. When no further payments were forthcoming, both men refused to do any further work for Meridian.

Meridian issued proceedings claiming that it was an express or implied term of the January agreement that the copyright in StratX should be assigned to it. At first instance, the deputy judge rejected the claim.

Meridian's case on appeal was that the deputy judge had been wrong to find that no such term had been implied by the January agreement since such an implication was in fact "necessary for its business efficacy and/or so obvious as to go without saying". According to Meridian, the deputy judge had erred in several respects. First, by failing to appreciate that there had in fact been a concluded contract between Meridian and CHUK at the time of the January 2006 meeting. Secondly, in holding that the necessity sufficient to justify the implication of a term had to be looked at from the point of view of the Defendants as well as Meridian. Thirdly, by failing to ascertain the express terms of the January agreement and to consider the question of necessity from the cumulative effect of all the factors relied on by Meridian on those express terms.

COURT OF APPEAL

Sir Andrew Morritt and Lord Justices Rix and Rimer dismissed the appeal. It was held that on the evidence, the judge had been entitled to find that at the time of the January agreement no contract between Meridian and CHUK had been entered into. There was no further evidence, as Meridian now argued, to the contrary. Essentially, whilst Meridian had gone on to sign a contract with CHUK in April 2006 warranting that it was the owner of all the relevant IP rights in StratX, at the time of the January 2006 agreement that contract was still in draft form. There was, therefore, no basis upon which to interfere with the judge's finding that the existence of a draft contract, the terms of which were not known but which were still open to discussion, was an insufficient basis for the implication of a term. The Court was not convinced that there was evidence that CHUK had by conduct already accepted the terms of the April 2006 contract or that the defendants had prior knowledge to this effect. Nor was it so obvious as to go without saying that a term should be implied.

The Court also considered that the judge had not erred in law by rejecting Meridian's argument that their ownership of the copyright was implied on the basis that without it their strategy of reselling the software to other customers would not be possible. According to Meridian, the judge had been wrong to dismiss the argument on the basis that it looked at the matter entirely from the point of view of Meridian and not from the other parties to the January agreement. On appeal, Meridian sought to rely on the House of Lord's decision in *Equitable Life v Hyman* [2002] 1 AC 408 to argue that the necessity sufficient to justify the implication of a term does not have to be mutual. The Court, however, saw no such support for that proposition in *Equitable Life*. To the contrary, in that case, Lord Steyn had been at pains to point out that the implication precluding the use of a director's discretion in the manner of which complaint was made "was essential to give the effect to the reasonable expectation of the parties". Had Lord Steyn been intending to apply the principle of which Meridian contended he would have referred to the policy-holder and not generally "the parties".

Finally, it was clear to the Court of Appeal that the judge had been well aware of the express terms of the January agreement and that he had considered extensive oral evidence as to the course of the January meeting. Nor could he be criticised for considering the points on which Meridian relied individually, for such value and force as they might individually possess, if only as a preliminary to considering their cumulative effect. But, if their individual value and force were nothing, their cumulative effect was also nothing. The judge was therefore entitled to find that Meridian had not established its claim based on an implied term of the January agreement.

COMMENT

The CHUK contract was clearly at odds with the deputy judge's conclusion. That, however, did not make that conclusion wrong. What Mr Bobeckyj thought, or liked to think, was that the situation in respect of ownership of the copyright in the software had little bearing on actual ownership in the absence of clear evidence that the circumstances leading up to the agreement to go ahead and develop the software were such that, objectively, it was necessary to imply a term as to ownership of copyright that was contrary to entitlement under statute. As the deputy judge remarked at first instance, Meridian was over a barrel—it was half way through Project Vista and facing the prospect of being unable to deliver. It had become dependent upon the Defendants to complete what was a one-off project for a significant client.

DOMAIN NAMES

Criticism sites and free speech

In the recent case of *Patel v Allos Therapeutics Inc* (20/6/2008, unreported), the legitimacy of using trade marks in domain names for websites that criticise the activities of the trade mark holder was called into question. Whilst domain name dispute resolution panels have not always agreed on the criteria applicable to the assessment of the legitimacy of such use, absent clear commercial use the registration of third party trade marks as domain names is not necessarily precluded by the Internet Corporation for Assigned Names and Numbers (ICANN) Uniform Dispute Resolution Procedure (UDRP) rules and policy.

Striking out a challenge, based amongst other things on infringement of the Claimant's free speech rights, to a UDRP ruling in which a World Intellectual Property Organization (WIPO) panel ordered the transfer of the domain name allostherapeutics.com to the U.S. pharmaceutical company Allos Therapeutics, Sonia Proudman QC, sitting as a deputy English High Court judge, provides some rare judicial insight into the factors that may determine legitimacy of trade mark use in domain names for criticism sites. Whilst domain name panels apply domain name rules and not trade mark law, a judge's view may influence further panels' determinations of legitimate interest in criticism site disputes under the UDRP.

BACKGROUND

Allos is a global pharmaceutical company that has traded under the name Allos Therapeutics Inc since July 1996. It owns a number of U.S. trade marks for ALLOS and ALLOS-THERAPEUTICS INC and holds the domain name allos.com, which it uses for its trading website.

Mr Patel had a habit of registering the names of pharmaceutical companies, not just Allos, as domain names. A horticulturalist by trade, he had no business interest in the pharmaceutical industry and claimed no rights in the name Allos Therapeutics. His purpose was to wage an ideological war against what he saw as the evils of the pharmaceutical industry, which he blamed for the death of his mother as a result of inappropriate drug treatment. That grievance was extended to the lawyers acting for pharmaceutical companies, whom he said would "lie, harass, steal and defraud in order to crush anyone who rightfully wishes to oppose the immoral activities of the industry". He also regarded the judiciary as inherently biased in the industry's favour.

It was common ground that, in registering the domain names, Mr Patel's actions were not undertaken to steal the company's business for his own financial gain but, as he saw it, to expose the immorality of the industry and its lawyers. The domain names containing the relevant companies' trade marks were used as protest or "gripe" sites. They were acquired with the intention of directing internet users searching for the company in question to a website in the name of the company and on which the company's logo was displayed. The home page would then be fully viewed before a disclaimer was seen or the user could otherwise realise that the site was not affiliated with the company. In the present case, however, the domain name did not actually lead to an active criticism site.

UDRP DECISION

Mr Patel registered allostherapeutics.com in June 2005. Allos submitted a complaint under the UDRP in April 2007 and the panel upheld it. Based on Mr Patel's pattern of past conduct of multiple domain name registrations, it appeared to the panel that he was a serial cybersquatter. In addition to this, the panel found that Mr Patel had failed to provide sufficient evidence to persuade it of his stated intention to create a legitimate criticism site. Accordingly, the panel ordered the transfer of the domain name to Allos.

CURRENT PROCEEDINGS

Mr Patel issued proceedings against Allos challenging the panel's order. He claimed that the UDRP process should be set aside on the basis that it infringed his human rights and in particular his right to freedom of expression under Article 10 of the European Convention on Human Rights. Allos applied for the claim to be struck out pursuant to Part 3.4 of the Civil Procedure Rules on the ground that the claim form disclosed no reasonable grounds for bringing a claim and, alternatively, for summary judgment on the basis that Mr Patel had no reasonable prospect of succeeding on the claim and there was no other compelling reason why the matter should go to trial. In brief, Allos alleged that the case was fanciful and not fit for trial at all.

COURT'S DECISION

The English High Court granted Allos's application. The deputy judge acknowledged that the UDRP does not preclude a party from "submitting the dispute to a court". She acknowledged that this appeared to assume that the court to which the matter is referred may be able to review the panel's decision on the merits. Nonetheless, since the proceedings were not an appeal, nor were they a judicial review of the UDRP decision, she stressed that the burden was on Mr Patel to plead and prove a cause of action giving him an interest in retaining the domain name. An unsuccessful registrant in such circumstances therefore faced considerable difficulty in identifying a cause of action upon which the panel's decision could be challenged.

Although not clearly pleaded, the deputy judge began by considering whether Mr Patel's right to a fair hearing under Article 6 of the ECHR had been infringed. The basis for such a claim was that he could not have a fair trial under the UDRP because of inherent bias in the system towards complainants. He contended that such bias was "well-known" and that the vast majority of WIPO conducted arbitrations are decided in favour of complainants. In the deputy judge's view, however, there was nothing in this case to establish bias in law and such a claim was bound to fail. Mr Patel's complaint amounted to no more than the fact that he was dismissive and distrustful of the procedure in which all his arguments were heard and rejected.

It was also clear to the deputy judge that Mr Patel's claim that his free speech rights were undermined in relation to his domain name site was bound to fail. The deputy judge acknowledged that it was generally considered to be in the public interest to provide free speech forums on the internet to criticise companies and their actions. However, certain factors took the present case out of this general proposition. Mr Patel used a domain name that was no more than a trading name of the company itself, without any additional indication to show that it was a protest site. Furthermore, the site adopted Allos's own trade mark. In effect, Mr Patel was posing as Allos in order to attract members of the public to the site. It was intended that there should be confusion in the mind of the public. The deputy judge commented that it was hardly free speech to use a domain name and trade marks that internet users would (and were meant to) associate with Allos in order to trick those users. Moreover, there was no active criticism site, or link to one from the domain. Mr Patel could not accept that he was the aggressor, not the victim. He was not debarred from making legitimate criticisms of pharmaceutical companies, or from setting up proper criticism websites from which he and others might do so. However, he had chosen to usurp names and logos contrary to the UDRP policy.

Amongst the other grounds upon which Mr Patel's claim was based was that by threatening to file a law suit against him, Allos had infringed Section 21 of the Trade Marks Act 1994 which affords a right of action to any person aggrieved by groundless threats of infringement proceedings. The deputy judge suggested that this perhaps afforded Mr Patel his best opportunity of airing his assertion that he had not been guilty of any infringement of Allos's marks because of his lack of commercial motive. Allos nevertheless contended that they were entitled to summary judgment on this point on a proper construction of what is use "in the course of trade in relation to goods or services" for the purposes of Section 10(3) of the Act. The deputy judge avoided that analysis by deciding that the 1994 Act was in any event inapplicable as the threat to file a law suit was plainly a threat of proceedings in the U.S. and not under the 1994 Act.

THE COURT'S CONCLUSION

In conclusion, the Court held that Mr Patel's claims were totally without merit. Neither the claim form, nor the particulars, disclosed any reasonable grounds for bringing the action. Whilst the claim was inherently coherent, the causes of action pleaded were obviously ill-founded. Alternatively, Allos was entitled to summary judgment on the basis that Mr Patel had no real prospect of succeeding in his claim and there was no compelling reason why the case or issue should be disposed of at trial.

COMMENT

This is a good decision for trade mark holders, not least in the pharmaceutical industry where protest sites are prevalent. Not only does it separate unqualified use of trade marks in domain names from the exercise of the right to free speech through websites dedicated to criticising the trade mark holder, but it recognises the considerable difficulties that a losing party will face when seeking to challenge a UDRP decision upholding a complaint brought by a trade mark proprietor before the courts. Two practical issues arise from the circumstances of this case. First, it is notable that the protest website was not active when the UDRP dispute arose, which strengthened Allos' case for transfer of the domain. Brand owners who pro-actively monitor registration activity and move swiftly will therefore have the upper hand in maintaining their rights. Second, the prospect of an English court action for unlawful threats of trade mark infringement being capable of overturning a UDRP decision was clearly flagged. Thus, care should be exercised at the earliest stages when communicating with registrants with any UK connection.

ICANN announces biggest expansion to internet in 40 years—recommendation for liberalisation of domain system approved

On 26 June 2008 the Board of the Internet Corporation for Assigned Names and Numbers (ICANN), the not-for-profit organisation set up in 1998 to oversee the structure of the internet, got everybody excited when it announced that it had approved a recommendation to liberalise the rules on the allocation of top level domains (TLDs) that could see a whole range of new domain names introduced to the internet's addressing system from next year. Dr Paul Twomey, President and CEO of ICANN, called it "a massive increase in the 'real estate' of the internet". The Board essentially accepted that it is possible "to implement many new names to the internet, paving the way for an expansion of domain name choice and opportunity".

PROPOSAL

The proposal, if implemented, would exponentially increase the current range of 21 generic TLDs, which include .com, .org and .info. Applicants will be able to "self-select their domain name so that choices are most appropriate for their customers or potentially the most marketable". The new system will not be reserved for businesses, individuals will be eligible to apply for a domain name provided they can show a "business plan and technical capacity". ICANN expects applicants to apply for targeted community strings—like the existing .travel for the travel industry and .cat for the Catalan community—as well as generic strings like .brandname or .yournamehere. Apparently, there are already interested consortia wanting to set up city-based TLDs, like .nyc (for New York City), .berlin and .paris. At this stage, it is also suggested that the expanding system will support different scripts such as Arabic, Cyrillic and oriental scripts—currently, the system only supports 37 Roman characters. As ICANN observes, this will be "very important for the future of the internet in Asia, the Middle East, Eastern Europe and Russia".

A final version of the implementation plan must be approved by the ICANN Board before the new process is launched. It is intended that the final version will be published in early 2009.

Upon approval of the implementation plan, it is expected that applications for new names will be available in the second quarter of 2009. There will be a limited application period during which any established entity from anywhere in the world can submit an application that will go through an evaluation process. It is anticipated that there will be additional rounds relatively soon after the close of the first application round.

Trade marks will not be automatically reserved. But there will be an objection-based mechanism for trade mark owners where their arguments for protection will be considered. Offensive names will be subject to an objection-based process based on public morality and order. This process will be conducted by an international arbitration body, drawing on the provisions of a number of international treaties.

COMMENT

The big IP question is what does this mean for trade mark proprietors. This may become clearer when the application procedures are fleshed out, not just for the new TLDs, but for domain names within them. ICANN hints at an objection procedure to protect brand owners from conflicting applications and presumably there will be certain ground rules under which the new TLD registrars will be expected to operate including adoption of the Uniform Dispute Resolution Policy and appropriate sunrise procedures to protect brand owners. Nonetheless, an inevitable consequence of an expanded internet address system is an incremental increase in cybersquatting. Major brands could face enormous costs from funding defensive domain name registration strategies in respect of the new domains.

SPORT

Circumventing conditional access, “illicit device” and copyright

On 24 June 2008, in *The Football Association Premier League Ltd v QC Leisure* [2008] EWHC 1411, the FA Premier League (FAPL) suffered another potential setback in its campaign against pub landlords using foreign decoder cards in the United Kingdom to access foreign transmissions of live Premier League football matches, and the decoder suppliers. Mr Justice Kitchin, referring a number of questions to the European Court of Justice (ECJ), has suggested that FAPL has no claim at all under the provisions of the Copyright Designs and Patents Act 1988 (CDPA) as the decoder cards do not constitute “illicit devices” as defined by the Conditional Access Directive (98/84/EC) and implemented in the United Kingdom by the CDPA.

BACKGROUND

FAPL has entered into territorially specific licensing agreements with foreign broadcasters to broadcast live footage supplied by Sky, which films the matches in the United Kingdom. At the relevant times, only Sky had the right to broadcast Premier League matches in the United Kingdom.

Two of the three actions in this case were against suppliers of equipment and satellite decoder cards to pubs and bars, which enabled the reception of non-Sky satellite channels that carry live Premier League matches. The third action was against licensees or operators of four pubs that showed live Premier League matches broadcast for reception in Africa and the Middle East.

CLAIMS

FAPL made a number of claims in relation to the screening in the United Kingdom of live Premier League matches broadcast for reception overseas. The claims include copyright infringement by the possession and use of foreign satellite systems and decoder cards in order to avoid conditional access technology, and copyright infringement by the creation of copies of the broadcast within the internal operation of the satellite decoder and by displaying the works on screen.

The Defendants counter-claimed that FAPL’s closed territorial licensing system, which prevents both active and passive distribution of the broadcast, infringes Article 81 and that FAPL’s limitations on the use of decoders and cards in multiple jurisdictions restricts the freedom of movement of goods within the European Union.

REFERRALS TO THE ECJ

Kitchin J referred a number of issues to the ECJ

1. Whether a device that is not “illicit” to begin with, as defined by the Conditional Access Directive, can change its status by reason of the subjective intention of a dealer as to the place where the device is to be used.
   In Kitchen J’s opinion, the use of foreign decoders and cards in the United Kingdom did not fall within the definition of “Illicit device”.

2. Whether the Defendants had a defence to copyright infringement by the creation of copies on decoders and on screen under 28A CDPA, which implements the transient copying exception to reproduction right in Article 5 of the Copyright Directive (2001/29/EC).

   The exemption applies to “temporary acts of reproduction” (referred to in Article 2) that are transient or incidental and an integral and essential part of a technological process and whose sole purpose is to enable a transmission in a network between third parties by an intermediary, or a lawful use of a work, and which have no independent economic significance. FAPL asserts that, although the copies are transient, they do have independent economic significance since the subscription paid to the licensed broadcaster is the sole basis on which the rights holder can extract the value from the rights. Kitchin J considered this a point of interpretation that required further guidance from the ECJ. His provisional view, nonetheless, was that

FAPL's argument failed to take adequate account of the inherent value of the transient copies as such, rather than as a means of controlling the process of which they form part—"the whole point of this defence is to remove ransom strips, not to create them".

3. A request for guidance on the scope and purpose of Article 3 of the Copyright Directive, in particular whether the publicans had infringed copyright by communicating the works to the public contrary to Section 20 CDPA, which implements Article 3.

   The judge's provisional view was that they had not communicated the works to the public within the meaning of Article 3 as they had simply received the signal, decoded it and displayed it on a television. In short, there had been no act of communication to the public within the Directive separate from the satellite broadcast itself.

4. Issues relating to the freedom of movement of goods and services, in particular regarding the validity of FAPL's licensing terms.

   Kitchin J noted, in relation to the claim under the Conditional Access Directive, the free movement defence would only arise if the Defendants lost on the issues of interpretation of "illicit device".

5. Guidance on what legal test the national courts should apply in deciding whether the export restriction in FAPL's licences engages Article 81.

   FAPL has asserted that its exclusive licences of performing rights do not per se infringe Article 81, even though they confer absolute territorial protection and might prevent transmission into a neighbouring State as it is inherent in the specific subject matter and essential function of copyright for broadcasts that rights may be licensed to exclusive licensees in particular Member States.

COMMENT

FAPL sees these combined actions as test cases. What it is seeking to test turns on the interpretation of the term "illicit device" under the Conditional Access Directive. As FAPL explained to the judge, broadcasters are prepared to pay a premium to acquire exclusivity in Premier League matches and the presence of competing live transmissions of the same matches in the same territory destroys this exclusivity and diminishes the value of the rights. The United Kingdom is the prime market and FAPL fears that if pubs are given the all clear, the prices it can charge for the United Kingdom and for Ireland will plummet. The ECJ's decision will therefore cast a crucial light on the Directive, which the European Commission hinted in a February 2008 consultation paper does not deal with the so-called grey market in audiovisual services protected by conditional access systems. As noted in the *Study on the impact of the Conditional Access Directive* commissioned by the European Commission for the purposes of that consultation, the grey market is "not exactly piracy but an infringement of contractual obligations imposing territorial restrictions to rights exploitation", an observation which, if correct, appears to take FAPL's claims outside the Directive.

That leaves copyright, which appears very much a fall back position for FAPL, one dogged by complexity and riddled with defences. Some of that complexity may be unravelled by the ECJ, which has been given a valuable opportunity to comment on the nature of transient copying and the parameters of the right of communication to the public. Let's hope it takes it.

UEFA challenges the UK list of events of major importance to society

As Euro 2008 kicked off, the Union of European Football Associations (UEFA), European football's governing body, was putting together submissions to the Court of First Instance (CFI), challenging the designation of all matches in the tournament as "listed events" in the United Kingdom. The UK list, formally approved by the Commission in October last year, includes the European Championship Finals as a whole (all 31 matches) and UEFA takes issue with the notion that matches in the group stages of the tournament, which do not even involve a national team from the United Kingdom, can somehow be considered as events of "major importance" for UK society. As we know, none of the "home nations" from the United Kingdom even qualified for Euro 2008.

BACKGROUND

The Audiovisual Media Services Directive, formerly the Television without Frontiers Directive, (89/552/EEC as amended by 2007/65/EC) lays down the framework conditions in which the public may be guaranteed free access to the broadcast of events deemed to be of "major importance to society". Article 3a of the Directive allows each Member State to nominate the events that it considers to be of major importance, such as the Olympic Games or the FIFA World Cup, and these events must be available on free television accessible to a high proportion of the population. To date, the countries that have notified lists to the European Commission are Austria, Belgium, Finland, France, Germany, Ireland, Italy and the United Kingdom.

The rules governing listed events in the United Kingdom are set out in the *Code of Sports and Other Listed Events and Designated Events* drawn up by the Independent Television Commission and adopted by Ofcom, the communications sector regulator. The sporting events in the UK's list are split into two groups. The live rights to Group A events essentially have to be offered to broadcasters providing free-to-air services with national or near national coverage (BBC1, BBC2, ITV1, Channel 4) This basically means that only a very small number of free-to-air broadcasters are bidders for the exclusive live rights to Group A events. On the other hand, Group B events may not be broadcast on an exclusive basis unless adequate provision has been made for secondary coverage (*i.e.*, highlights). In the United Kingdom, the Group A list includes, amongst other things, the Olympic Games, The FIFA World Cup Finals Tournament, The Rugby World Cup Final and The European Football Championship Finals Tournament. The next internal review of the UK's list is expected in 2009.

UEFA'S POSITION

UEFA does not object to European Championship matches involving teams from the United Kingdom being considered as being of "major importance to UK society". Nor does it have a problem with other "gala" matches, such as the final itself or the opening game. It does not, however, see why group matches involving foreign sides should be "protected" in this way. UEFA argues that the listing of such matches infringes its property rights and also leads a highly distorted market for the acquisition of the rights to the European Championships in the United Kingdom. It has also been mentioned that it is somewhat anomalous to suggest that a Group stage match in the Championships between, say, Turkey and the Czech Republic is of "major importance" to UK society, whereas the semi-final of the Rugby World Cup between England and France was apparently not.

COMMENT

The UK Government, it has been suggested, may take some persuading. It apparently regards the European Championships as being of specific interest to the general public in the United Kingdom, not just sports fans. It is not altogether clear, however, what evidence it has relied on to reach this position or whether it has looked at the matter very closely of late.

The UK Department for Culture, Media and Sport acknowledges that listing inevitably depresses the value of media rights and distorts competition. Nevertheless, doubtless driven on by political considerations, it remains unclear whether the government will revisit the matter. The UK government is bound to intervene in the case to support the European Commission, but it will be the CFI that may ultimately have to decide whether every single match in the European Championships really is of "major importance" to the general public in the United Kingdom.

Euro 2008—ambush marketers find holes in fan zone

Ever since the first noted campaign at the 1984 Los Angeles Olympics, "ambush marketing"—where an unofficial third party attempts to associate itself with an exclusively sponsored event—has occurred in one form or another at numerous large events, particularly sporting ones. Unsurprisingly, Euro 2008 was no exception. The Union of European Football Associations (UEFA), European football's governing body, did its utmost to prevent it from occurring in light of the estimated value of the tournament of 2 billion Swiss francs in media rights, tickets and sponsorship from Carlsberg, MasterCard and Adidas, amongst others. UEFA, which stood to make over £190m from sponsors out of the total £1bn from the tournament as a whole, deployed the largest number of staff ever for a UEFA event to police the exclusive zones and combat ambush marketing.

What UEFA did not anticipate, however, were the objections from the public and prominent local politicians. Euro 2008 was the first tournament to make "fan zones" brand exclusive. At the same time, UEFA conversely experienced a lack of support from the host nations in terms of preventive legislation and other measures dealing with ambush marketing.

FAN ZONES

Most companies will not consider any attempt to infringe trade marked brand names such as Euro 2008. However, some are more willing to use ambush marketing tactics during an event. This is a major concern for UEFA.

Euro 2008 saw a key turning point in exclusivity as lucrative sponsorship deals were extended to the fan zones—designated public places where fans can gather to watch the games for free on giant screens. Previously, fans could wear whatever they wanted in these zones. However, in this tournament, UEFA sought to ensure that this was not the case, by preventing free t-shirts printed by unassociated companies from being given to fans to wear inside the fan zone.

Some considered this a step too far by UEFA. It has been suggested that, whilst restricting logos and rival companies' marks or signs is acceptable inside the stadium where the match is being transmitted on television, it is excessive in the fan zones.

ALCOHOL

One of the most profitable markets for the organisers of any major football tournament is the sale of alcohol. Consequently, any brand that sponsors the tournament wants to ensure it has exclusivity. Carlsberg spent an estimated £15m to be one of six Euro 2008 title sponsors. A key aspect of most tournaments is that, unlike inside the stadium, fan zones can sell alcohol, making the exclusivity extended to fan zones extremely lucrative. The projected figures for the fan zones at Euro 2008 were six million users over the three week tournament. This, combined with the estimated 10 billion television viewing audience, to whom only official sponsors can advertise during live matches, makes sponsoring the event an extremely attractive prospect and one that Carlsberg wished to exploit alone.

OBJECTIONS

Usually, exclusivity agreements have the full support of ministers from the host nation or nations. For example, UEFA and FIFA enjoy tax exempt status in Bern. However, the Swiss government refused to tighten legislation regarding ambush marketing prior to Euro 2008 as a number of objections were raised that it would only benefit the largest sports organisations and companies and therefore hinder competition for small and medium sized businesses in the European Union. The Swiss Minister of the Economy suggested that exclusive marketing agreements do not go hand in hand with host nation status.

Further, as a sign of the growing frustration with corporate dominance of these events, a number of groups sought to take advantage of the popularity of the tournament. For example, in Switzerland, supermarket Migros, which was not an official sponsor of the tournament, launched an "M'08" campaign as a clear reference to the football championships, but did not explicitly mention Euro 2008. In Austria, beer maker Ottakringer Brauerei AG exploited the discontent amongst the fans by selling beer with a red and white logo—the same colour as the Austrian flag—calling it the "official fan beer [for] real fans who want to show their support in whatever way they can". Its popularity rapidly increased during the tournament.

Actions such as Euro 2008 organisers fencing off three bars next to the central fan zone in Basel because they refused to sell Carlsberg (the official beer) during the tournament, also antagonised smaller businesses as well as consumers. Unser Bier, a local brewer, attempted to challenge Carlsberg's dominance of the tournament by running a rival campaign alongside it. Their slogan on t-shirts, beer mats and bottle labels, "Basel. More than only Calrsberg" (English translation), was a pun on the city's official slogan "Basel. More than 90 minutes." Of course, the miss-spelling of Carlsberg was intentional.

Research released by the Centre for the International Business of Sport (CIBS) at the end of June cited 18 instances of ambush marketing taking place since the beginning of the Euro 2008. This included Burger King's "red card" advertising campaign (McDonalds were the official sponsors), and Heineken's branded marching band-style hats for Dutch fans to wear. The CIBS also published a report, *Ambush Marketing in Sport: An Assessment of Implications and Management Strategies*, analysing more than 300 cases of ambush marketing. Beginning with the first alleged case of ambushing at the 1984 Olympic Games in Los Angeles, the report catalogues the development of ambushing and its implications for the biggest events. This shows that ambush marketing is a global problem that affects every sporting event.

COMMENT

The Swiss government's objection to tighter legislation is unlikely to set a precedent. The build up to major events, from the Olympics in Sydney 2000 to successive Cricket and Rugby World Cups, has indicated that host countries are willing to cooperate as much as possible with the larger sponsors as they recognise how valuable sponsorship is to the sporting event. Switzerland and Austria may be an anomaly, as they are amongst the minority of countries rich enough to host sporting events that can stand up to the sponsorship from multinational companies. Most countries desperately rely on large sponsorship to promote and run major events as smoothly as possible. Therefore, it seems only a matter of time before more safeguards are put in place to ensure this happens in the future.

ENTERTAINMENT & MEDIA

Gambling Commission FAQs on reverse auctions—distinguishing prize competitions from lotteries

The Gambling Commission has published guidance in the form of frequently asked questions (FAQs) on reverse auctions setting out how it will determine whether a reverse auction is lawful under the Gambling Act 2005. In other words, whether it qualifies under Section 14 of the Act as a prize competition or is, in fact a lottery that, unless licensed, is unlawful.

BACKGROUND

Reverse auctions are schemes in which a participant must make the lowest unique bid (generally in pennies) in order to win a prize. Depending on the format (online, TV, radio, SMS or print) the prize is shown or described (including the retail value) and participants are asked to submit a bid. This is usually via a premium rate text message, or through registering with the website and paying by debit/credit card, or through pre-purchased credits. As well as the cost of making each bid, the winning participant is usually required to pay the amount of their winning bid to receive the prize. Reverse auction schemes are usually operated as prize competitions, which are not regulated by the Commission.

Depending on how a reverse auction is operated, however, it could be considered to be a lottery. To qualify as a prize competition, a reverse auction must satisfy requirements set out in Section 14(5).

THE SECTION 14(5) TEST

Section 14(5) says that a genuine prize competition is one that does not, as in a lottery, rely wholly on chance, but instead contains a requirement to exercise skill or judgement or to display knowledge. It can also reasonably be expected that that requirement will either

- Prevent a significant proportion of people who wish to participate from doing so (Section 14(5)(b)) or

- Prevent a significant proportion of people who participate from receiving a prize (Section 14(5)(a)).

RELEVANT FACTORS

The Commission sets out a number of factors that it says may enable operators of reverse auctions to ensure they satisfy the test. These include time limits for the submission of bids, the provision of information to participants about previous winning bids (for similar items) and updates on the status of their current bid(s). The Commission accepts that operating reverse auctions of this type may make it possible for participants to apply a strategy to their bidding (demonstrating a requirement for a level of skill or application of knowledge).

NON-COMPLIANCE

If a reverse auction does not meet the test for prize competitions and all the elements of a lottery are present—*i.e.*, payment, chance and allocation of prizes—then it may be an unlicensed and therefore unlawful lottery. Operators of reverse auctions that do not meet the test in the Act must therefore either cease to operate, adapt their schemes to satisfy Section 14, or apply to the Commission for a Lottery Operating Licence and be subject to the regulations and Licence Conditions and Codes of Practice associated with this type of licence.

COMMENT

The Commission reminds operators of reverse auctions that the onus is on them to satisfy themselves that their schemes are compliant. In other words, just because you're not aware that your reverse auction is a lottery and no one has told you that is what it is, it doesn't mean that it isn't. In that sense the "guidance" is as much a warning to operators that the Commission will take action where schemes are organised and promoted such that, in its view, they amount to unlicensed and therefore illegal public lotteries. The message, however, is that schemes will not pass the Section 14 test where operators only provide participants with information on whether they were successful or not as opposed to providing, from the submission of the first bid, additional information of the kind provided on standard auction sites like e-Bay.

Band formation, ownership of songs and partnership

On 6 June 2008, in *Kiley McPhail (aka Kiley Fitzgerald) v James Bourne* [2008] EWHC 1235 (Ch), Mr Justice Morgan found nothing to impugn a settlement agreement resolving a dispute between the original members of the band Busted over the ownership of the rights in six songs.

DISPUTE

The Claimants, Kiley Fitzgerald and Owen Doyle, met the Defendants, James Bourne and Matthew Sargeant, in December 2000 when they were all, except Owen Doyle, 17 years old. They were introduced by an American entrepreneur named Richard Rashman. According to the Claimants, almost immediately, the four boys entered into a contractual relationship under which they agreed to write songs to be performed by the band and to take steps to obtain a recording contract. The four boys then entered into a formal management contract with Mr Rashman on 15 March 2001.

Unfortunately, on 8 October 2001, the band split and the agreement with Mr Rashman was terminated. Dispute arose over the ownership of some of the songs, six in particular. This was settled by a written settlement agreement entered into by the four boys on 22 March 2002. Under that agreement, the Claimants obtained the rights to two of the songs and the Defendants the rights to four of the songs.

The current dispute was principally about those four songs. The Claimants applied to have the settlement set aside on three grounds. First, that it was entered into by the Claimants as a result of the undue influence of Mr Rashman and his associate John McLaughlin. Secondly, that Mr Rashman and Mr McLaughlin made misrepresentations to them such as they were entitled to rescind the agreement. Thirdly, and in the alternative, they claimed that the settlement agreement was arrived at as part of the process of winding up a dissolved partnership and that the Defendants were in breach of their duty of disclosure.

The Claimants contended that, as a result, the ownership of the songs should be governed by an agreement made in early 2001 that the songs should be beneficially owned by the four boys, or, alternatively, that the copyright in the songs would be owned by the joint authors of the songs, in relation to which disputes of fact would be determined by the court. In addition to these claims, the Claimants sought an account of profits made by the Defendants who, just before entering into the settlement agreement, had signed a lucrative recording contract for the new Busted featuring themselves and a new member, Charlie Simpson. According to the Claimants, the recording contract and the new band's success was a result of improper use, without the informed consent of the Claimants, of partnership assets and, in particular, the four songs in dispute, the goodwill in the name Busted and certain trade marks in relation to the mark BUSTED. All of which meant the Claimants believed they were entitled to very substantial sums of money.

The Defendants' case was radically different. They conceded that they had entered into a written management agreement with Mr Rashman, as he required them to do so, but that agreement was with the four boys jointly and severally. Their position was that there was no contractual relationship between the four boys and certainly no partnership. They also claimed never to have made an agreement with the Claimants as to ownership of the songs and certainly not an agreement to the effect that the songs would be beneficially owned in four equal parts, irrespective of who had contributed to the composition of a particular song. They believed that the settlement agreement was generous to the Claimants and that, after that agreement, they were entitled to make use of the four songs that were acknowledged to be theirs under the settlement agreement. Additionally, they contended that there was no goodwill in the name Busted and no benefit in the trade mark BUSTED.

COURT'S DECISION

The judge dismissed the Claimants' case. He made detailed findings of fact as to what took place between the sacking of Mr Rashman in October 2001 and the signing of the settlement agreement in March 2002. Based on those findings of fact, he concluded that there was no undue influence, either actual or presumed. There were no threats or misrepresentations made to the Claimants to induce them to enter into the settlement agreement. No improper pressure had been put upon them. There was no impropriety or unacceptable behaviour on the part of the Defendants, Mr Rashman, or Mr McLaughlin in relation to the negotiations that led up to the conclusion of the agreement. There was no fiduciary relationship between Mr Rashman and the Claimants after 8 October 2001. Additionally, and amongst other things, Kiley Fitzgerald had accepted the settlement terms in March 2002 because he preferred them to other settlement terms that he had been offered. The undue influence claim therefore failed and, on the same findings of fact, so did the misrepresentation claim.

PARTNERSHIP

The judge also rejected the Claimants' alternative case based on the existence of a partnership. Reviewing the law, the judge noted that it is a precondition to the existence of a partnership that there is a binding contractual relationship between the parties; the law will then determine whether that contract is a contract of partnership or creates some other relationship. The agreement need not be in writing and can be created formally or informally. If there is no direct evidence of the making of an express agreement, the court may be able to infer from other evidence that the parties did indeed reach an express agreement. In the absence of an express agreement, an agreement may be implied from the conduct of the parties. If, for example, two or more persons carried on a business in common, with a view to profit, and distributed the net income of that business between them, it may well be appropriate to imply the existence of a contract between them, the terms of which contract provided for those persons to carry on that business and to have rights and obligations in relation to that business and the benefits and liabilities to which it gave rise.

Nonetheless, contracts were not to be lightly implied, but a contract could be implied where the court was able to conclude with confidence both that the parties intended to create contractual relations and what the terms of the contract were. Finally, in *Khan v Miah* [2000] 1 WLR 2123, the House of Lords held that there was no rule of law that parties to a joint venture did not become partners until trading actually commenced. The Claimants' case for an express partnership would not therefore fail simply because they had not, as part of the original four, obtained a recording contract.

Against this background, the question for the judge was whether there was an oral agreement for a partnership or, if not, whether one could be implied from conduct. On his findings of fact, the judge concluded that there was no contractual relationship entered into by the four boys when they reached an understanding that they would collaborate and write songs and rehearse those songs and act under the management of Mr Rashman with a view to getting a record deal. The alleged oral agreement, alleged to give rise to a partnership was made in January 2001, which was before the four boys received any legal advice about contracting with Mr Rashman. The lack of definition in relation to the activities, which were the subject of the contract and the alleged partnership, and the complete lack of appreciation that anything the boys were doing required them to address those questions, suggested that there was no intention to create a contractual relationship at all.

Nor, in the judge's view, could it be said that the parties had reached an express agreement some time later (but before October 2001). Whilst after January 2001 the boys did have legal advice and did enter into the management agreement with Mr Rashman, the fact that that agreement related to a matter of business and involved legal advice and a written document demonstrated that, in relation to that part of their activities, the boys did intend to be contractually bound. However, this was because Mr Rashman required them to act that way, for his own protection. Mr Rashman did not suggest to them that they should form a contractual relationship between themselves and it did not seem to have occurred to them that they should do so. Further, it was a factor suggesting that the four boys had no intention to create a contractual relationship between themselves, that the management agreement was recorded in writing following legal advice and following the involvement of the parents of some of the boys. There was nothing comparable in relation to the suggested contractual relationship between themselves.

The Claimants' proposition that the terms of the management agreement indicated that the boys must have made a parallel contractual relationship between themselves was not supported by an examination of those terms. For example, the management agreement was for a term of five years with specific early termination provisions, whereas the suggested contract and alleged partnership was said to be at will. Additionally, the judge considered that the fact that the boys did not make a contract about the songs made it less likely that they entered into a contractual partnership, given the emphasis laid by the Claimants on the fact that the partnership was for the purpose of collaborating in song writing. As to whether a contract of partnership could be implied from conduct, for much the same reason the judge concluded that the activities of the four boys between January 2001 and October 2001, which were consistent with the non-contractual arrangements made in January 2001, did not justify an inference that they must at some time, after the initial meeting, have turned a non-contractual relationship into a contractual relationship. Accordingly, there was no contract of partnership, express or implied.

As there was no partnership, the question of partnership property did not arise. But for the settlement agreement, the ownership of the copyright in the songs was thought to be determined amongst the four individuals and not as partnership property. Similarly, because there was no partnership, the name Busted could not be partnership property and any goodwill in it, which on the facts the judge concluded did not exist to any significant degree, would be owned by the four boys, but not as partners.

COMMENT

If the settlement agreement had been set aside, the judge would have had the unenviable task, in the absence of a partnership, of assessing according to their contributions the respective shares in the ownership of the copyright in the songs amongst the four boys as individuals. Indeed, he considered doing so but thought better of it on account of the significantly conflicting evidence and the magnitude of the task. As to the existence of a partnership at will, the judge's findings were strongly influenced by the fact that he considered the boys too young to appreciate the potential significance of what they were doing. That may be the case in the sense that young boys forming a band and making up tunes are not likely to have any sense of how to go about determining how the ownership of those songs and tunes are shared. That does not, however, necessarily mean they do not have a sense that they are part of something that is shared between them and that it would be very unfair if one or some of them were to claim that they were the sole creators of the work. It will not always be clear, as it was to the judge in this case, at what point that "sense" will be sufficiently strong, and evidently so, that a contractual relationship amounting to a partnership may be implied.

ADVERTISING & MARKETING

Regulation of unfair commercial practices in advertising—BCAP consultation and changes to CAP Code

The Unfair Commercial Practices Directive (2005/29/EC), which was implemented in the United Kingdom on 26 May 2008 by the Consumer Protection from Unfair Trading Regulations 2008 (CPRs), may be one of the most sweeping pieces of legislation in recent memory. However, the Advertising Standards Authority (ASA) says that it is "not anticipating a significant change in its overall approach" following changes to the Committee of Advertising Practice (CAP) Advertising Code announced on 24 June. The Broadcast Committee of Advertising Practice (BCAP) is, nevertheless, consulting on its proposals to bring the BCAP TV and Radio Advertising Standards Codes into line with the CPRs. CAP, on the other hand, has thought better of holding a public consultation, preferring instead "to publish its amendments immediately to help the advertising industry to comply with the new legal provisions".

BACKGROUND

As well as introducing into UK law a general duty on all businesses not to trade unfairly with consumers, the CPRs identify misleading and aggressive practices as forms of unfair practice. They introduce legal definitions of such practices and set out a framework for the assessment of commercial practices that are alleged to be unfair. The CPRs also blacklist 31 specific practices considered unfair in all circumstances.

BCAP CONSULTATION

Instead of incorporating the tests set out in the CPRs into every BCAP Code rule that relates to unfair, misleading or aggressive advertisements, BCAP proposes to include an appendix in the TV and Radio Codes that will summarise those tests. The proposed appendix will also state that, whenever the ASA considers complaints under the rules that prohibit unfair, misleading or aggressive advertisements, it will have regard to the tests set out in the CPRs.

The CPRs specify that the effect of a commercial practice must be considered from the point of view of the average consumer (Section 2, paragraphs 2 to 6). This is consistent with the ASA's existing practice. In most cases, the average consumer is an average member of the population as a whole. BCAP confirms that if the advertisement is directed at a specific group of consumers, however, or if the advertisement is likely to affect the behaviour only of a vulnerable group in a way that the advertiser could reasonably be expected to foresee, the effect will be considered from the point of view of the average consumer in the affected group. The CPRs' provisions on "average consumers" are also incorporated in the appendix to the TV and Radio Codes that summarise the tests to determine unfair, misleading or aggressive commercial practices.

As for blacklisted practices, BCAP intends to incorporate into the Codes those that are, or could be, relevant to advertising. These include, amongst others: bait advertising; describing a product as free if the customer has to pay anything other than the cost of collection/delivery; and presenting rights given to consumers in law as a distinctive feature of the advertiser's offer. The practices that BCAP does not intend to incorporate are those that fall outside the remit of BCAP's Codes, for example, practices that involve face-to-face contact and direct solicitations by phone or fax.

Finally, the CPRs also introduce the concept of "invitation to purchase". The section of the CPRs that forbids misleading by omission (Section 6) specifies information, the omission of which may render an "invitation to purchase" advertisement misleading (Section 6, paragraph 4). Whether the advertisement is misleading by omission is determined by means of the test set out in the general prohibition on misleading omissions.

Because "invitation to purchase" is a significant aspect of the CPRs and is a concept that does not exist in the present regime for advertising regulation, BCAP proposes to include in the Codes the CPRs' prohibition of misleading omission in advertisements that feature invitations to purchase.

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CAP CODE CHANGES

The introduction to the CAP Code now states that, in assessing conformity with the Code, "the ASA may take account of honest market practices and the general principle of good faith in the traders' field of activity". New rule 2.9 also states that "marketers should deal fairly with consumers".

Rule 4 now states that "marketers should not state or imply that a product can legally be sold if it cannot or present rights given to consumers in law as a distinctive feature of their offer".
New rule 7.2 states that

> *"marketing communications must not omit, hide or provide in an unclear, unintelligible, ambiguous or untimely manner material information if that omission or presentation is likely to affect consumers' decisions about whether and how to buy the advertised product".*

The new rule also sets out the information that must be provided in ads that quote prices for advertised products, such as the main characteristics of the product, delivery charges and the right to cancel if applicable.

Under new rule 9.3

> *"marketers should not mislead consumers about the nature or extent of the risk to the personal security of consumers or their families if consumers do not buy the advertised product. New rule 9.4 states that marketers should not explicitly inform consumers that, if they do not buy the product or service, the marketer's job or livelihood will be jeopardised."*

New rules 14.7 and 14.8 reflect the prohibitions on the blacklisted practices of falsely displaying trust marks *etc.* or falsely claiming to be a signatory to a code of conduct. Similarly, the CAP Code rules on availability (rule 16) have been amended to incorporate the prohibitions on bait advertising, switch selling, making false representations about market conditions and claiming that a business is about to cease trading.

The prohibitions on advertisements that create confusion between advertiser and competitor, or with a competitor's products or marks, are covered in new rules 18.6 and 19.2 respectively and new rule 21.3 states that "marketing communications should not mislead consumers about who manufactures the product".

Rule 22.3 states that "marketers should not falsely claim or imply that they are acting as consumers or for purposes that do not relate to their trade, business, craft or profession".

New rule 32.5 replaces rule 32.1. The new rule states that consumers' liability for costs should be made clear in all material featuring "free" offers. An offer should be described as free only if consumers pay no more than the minimum, unavoidable cost of responding to the promotion, and the true cost of collection or delivery. Promoters should not charge for packing, handling or administration.

The rules on prize promotions have been amended. Rule 35.6 is replaced with new rule 35.10 which provides that "marketers should award the prizes as described in their marketing communications or reasonable equivalents". New rule 35.11 states that "marketers should not falsely claim or imply that the consumer has already won, will win, or will, on doing a particular act, win a prize (or other equivalent benefit) if the consumer must incur a cost to claim the prize (or other equivalent benefit) or if the prize does not exist". New rule 39.1 states that "marketers should not claim that products are able to facilitate winning games of chance".

Rule 42 now expressly bans inertia selling although this was already prohibited under the Distance Selling Regulations 2000/2334. Rule 43.13 prohibits making persistent and unwanted marketing solicitations by distance means.

Appealing to children to pester their parents or other adults to buy advertised products is prohibited in new rule 47.12b. New rule 50.27 states that marketers should not falsely claim that a product is able to cure illness, dysfunction or malformations. Pyramid schemes are banned under new rule 52.8.

As in the BCAP consultation, a new appendix summarises the tests set out in the CPRs relating to unfair, misleading or aggressive advertisements which underlie the application of the Code generally.

COMMENT

Whilst CAP's revised clauses come into immediate effect, CAP will take into account any changes that BCAP makes as a result of its consultation in its forthcoming comprehensive review of the CAP Code. Fortunately, as most of the rules presently in the Codes are, or were already, consistent with the CPRs, it does appear that any changes made or proposed are more of form than substance. Nevertheless, in the light of the fact that breaches of the CPRs are in the main strict liability criminal offences, breaches of the corresponding sections of the Codes take on an altogether different significance.

ACKNOWLEDGEMENTS

The European IP Bulletin is produced in association with

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