



## ADVERTISING & MARKETING

### Misleading Advertising and Pricing

On 15 October 2009, the UK's Office of Fair Trading (OFT) announced two separate marketing studies into advertising and pricing. The announcement follows the OFT's call for comments in August 2009 regarding the possibility of investigating these areas. After receiving comments, the OFT has decided to initiate a study into the online targeting of advertising and prices and a separate study into the advertising of pricing.

#### BACKGROUND

The OFT's initiative is set against a background of recent and ongoing consumer law reform and increasingly diverse and technology driven pricing and advertising practices. In particular, the Consumer Protection from Unfair Trading Regulations (CPRs), which came into force on 26 May 2008, replacing the Control of Misleading Advertising Regulations 1988. One of the aims of the market studies will be to clarify the OFT's application of the CPRs, including how they and other existing consumer laws apply to internet transactions. The proposed studies should also be seen in the context of the ongoing debate at national and EU level over the potential misuse of personal data in order to target and discriminate against individuals.

#### THE SCOPE OF THE STUDIES

The OFT has identified a number of pricing practices that it considers have particular potential for consumer detriment, not least because some of them are already blacklisted under the CPRs. The study into the advertising of prices is likely to look at, amongst others, bait prices, reference prices, time limited pricing and complex pricing. The study is also likely to look specifically at price comparison sites, which the OFT says may be complicated by the use of these practices.

The study into online targeting of advertising and prices will consider the use of personal information in advertising and pricing. In particular, it may examine behavioural advertising where information on a consumer's online activity is used to target internet advertising and the practice of tailoring prices to individual consumers on the basis of their personal data. All of the practices that eventually fall within the scope of the two studies will be examined in terms of their prevalence and likely

development, the benefits and harm to consumers, and the application of existing regulation.

#### COMMENT

After looking for comments on the scope of its investigation, the OFT has rapidly narrowed the issues of concern into two separate studies. However, both studies will be limited to advertising and pricing issues in non broadcast media. Terms and conditions and issues relating to misleading advertising of quality therefore fall outside the scope of the studies. The studies may culminate in an industry code of practice and the OFT may make recommendations to the Government or to sector regulators like Ofcom.

## INTELLECTUAL PROPERTY

### Unlawful P2P File Sharing: Suspension of Accounts?

The UK Department for Business, Innovation and Skills (BIS) has extended its Consultation on legislation to address illicit peer-to-peer (P2P) file sharing in order to gather views on whether there should be added to the list of such measures the power to block an individual's access to the internet. It is also being proposed that instead of Ofcom, the Secretary of State should be the one to decide whether those technical measures are necessary.

#### BACKGROUND

The BIS consultation was launched on 16 June 2009, the day Lord Carter published his Digital Britain: Final Report, setting out the Government's strategy for Britain's digital future. That strategy includes introducing legislation to impose two obligations on internet service providers (ISPs). First, to send notifications to subscribers alleged by rights holders to be infringing copyright and, second, to monitor the number of notifications sent to each subscriber and make this data available to rights holders for the purpose of obtaining a court order to reveal the identities of serious repeat infringers so that legal action can be taken against them. Taking those proposals forward, the BIS consultation also proposed giving Ofcom backstop powers to require ISPs to take "technical measures" against serious repeat infringers.

On 25 August 2009 the Government released a formal Statement on the proposed P2P file sharing legislation.

## TECHNICAL MEASURES

The Government is now proposing that the Secretary of State be given a two part power of direction in relation to the potential introduction of technical measures. The first part would enable him to direct Ofcom: to carry out preparatory work on the mechanics of introducing technical measures, including an assessment of their efficacy on different networks; to develop the code of practice that will apply to implementing such additional measures; and to consult on their conclusions.

The second part would allow the Secretary of State to direct Ofcom to introduce the technical measures it has determined are effective and proportionate should the Secretary conclude that such measures are necessary to achieve the overall objective. Ofcom would still have a duty to monitor the overall position and report on the effectiveness of the original obligations but Ofcom's advice will not be binding on the Secretary of State, who would be able to take into account other, wider factors and other sources of information before making any decision on the introduction of technical measures.

## SUSPENSION OF ACCOUNTS

The original consultation listed six technical measures that Ofcom might require ISPs to impose on repeat infringers. These included, for example, blocking sites, bandwidth capping and content filtering. They did not, however, include suspending subscribers' accounts. The Government now suggests that without account suspension the technical measures would not have any significant deterrent effect on infringing behaviour.

## COMMENT

Before the proposal becomes reality, however, the new measures must comply with both UK and EU law and one of the reasons that account suspension did not appear on the agenda initially was for fear that it might upset the EU legislature. Account suspension, the so-called third strike, was originally proposed under the Loi HADOPI, the French anti-file sharing legislation that has been at the centre of a major row between the European Parliament and the EU Council of Ministers in the context of the EU's package of telecoms reforms. The European Parliament sought to write into the reforms the stipulation that "no restriction may be imposed on the fundamental rights and freedoms of end-users, without a prior ruling by the judicial authorities". This would rule out the imposition by non-judicial authorities like HADOPI and of course Ofcom, of requirements on ISPs to withdraw internet access from individuals.

## COMMUNICATIONS & NEW MEDIA

### Digital Britain: Government's Delivery Programme

The UK Department for Culture Media and Sport (DCMS) and the Department for Business, Innovation and Skills (BIS) have published the *Digital Britain: Implementation Plan*, setting out the Government's programme for the delivery of the proposals contained in the *Digital Britain: Final Report*, published in June 2009. The *Implementation Plan* explains who has responsibility for delivery of the actions contained in the Final Report and outlines the content of the Digital Economy Bill that will take forward those actions that require legislation.

### BACKGROUND

The *Digital Britain: Final Report* set out the Government's vision for Britain's digital future in the form of a number of immediate and future actions across the entire digital spectrum. As such, the Government's vision includes: a universal service commitment for 2Mbs broadband by 2012; the roll-out of next generation access broadband to the "final third" by 2017; the release of spectrum for next generation high speed mobile broadband; legislation imposing responsibilities on Ofcom and internet service providers (ISPs) to combat unlawful online file sharing alongside a new regulatory framework to combat digital piracy; copyright reforms aimed at incentivising creativity in interactive digital media; the full transition of national radio to digital by 2015; a review of Channel 4's statutory remit and a reappraisal of the role of the BBC alongside a general review of public service content; and the introduction of measures to improve digital security and safety, including a new classification system for video games, based on the European PEGI system.

### PROGRAMME GOVERNANCE

The *Implementation Plan* explains that Digital Britain will remain a joint programme led by BIS and the DCMS, supported by other relevant cross government activity.

The actions contained in the *Final Report* will be delivered through a number of individual projects, usually managed within either the BIS or DCMS. These workstreams, which reflect broadly the categories above, will report to a Programme Board responsible for ensuring delivery of the entire programme, monitoring progress and ensuring value for money.

The legislative proposals, which will be taken forward through the Digital Economy Bill, will be managed between the DCMS and BIS by a joint Bill Team, which will be charged with day to day coordination, liaison, management and reporting on progress. A Bill Project Board will oversee the delivery of the Bill. There will also be a Bill Management Group, to track progress and drive delivery of the Bill, dealing in particular

with any delays, problems and coordinating action to address them.

#### **DIGITAL ECONOMY BILL AND RELATED WORKSTREAMS**

The first of the individual projects or “workstreams” is the Digital Economy Bill itself. Among other things, the Bill will provide the legal basis for the Government’s anti-file sharing and online piracy strategy. The Bill will also harmonise penalties for online and physical copyright infringement and will provide the basis for commercial schemes to be set up on a regulated basis to deal with orphan works.

The Bill will provide Ofcom with the necessary powers to ensure that the Digital Radio Upgrade is realised by the end of 2014. The Bill will also update the statutory remit for Channel 4. In other areas, the Bill may be used to enable the Government to direct Ofcom to regulate the distribution of domain names in the United Kingdom.

The Digital Economy Bill will also provide for the new classification system for boxed video games, incorporating the newly enhanced Pan-European Game Information system.

#### **OTHER WORKSTREAMS**

There are, in all, 18 individual projects or workstreams. For example, the Broadband Project sets out the Government’s strategy for delivering the actions set out in the *Final Report* in relation to current and next generation broadband. Specifically, a Network Design and Procurement Group will be established to deliver the Universal Service Commitment of 2Mbs. The Broadband Project also includes the establishment of the Final Third Project to deliver at least 90 per cent coverage of Next Generation Broadband by 2017.

Project 14 - Personal Digital Safety - covers a number of actions, including supporting the Information Commissioner’s Office in drawing up a new code of practice on Personal Information Online for consultation later this year.

#### **COMMENT**

What the Implementation Plan says about timing is inevitably vague. It does not set out a timescale for every item of the programme and clearly some projects will be realised sooner than others, particularly where there is a need for consultation on prospective legislation. In general, however, it is expected that “immediate or preparatory actions” will be completed in the autumn, with longer-term projects stretching to 2012 or beyond. A progress report will be published in the autumn for those actions already subject to consultation.

#### **Keywords, Sponsored Links and Trade Mark Infringement**

In a combined reference for a preliminary ruling from the Cour de Cassation in France (Joined cases Google France & Google Inc v Louis Vuitton Malletier C-236/08, Google France v Viaticum & Luteciel C-237/08 and Google France v CNRRH,

Pierre-Alexis Thonet, Bruno Raboin & Tiger, franchisee Unicis, C-238/08), Advocate General Maduro advised the European Court of Justice (ECJ) to rule that search engines selling keywords to advertisers cannot be liable for trade mark infringement

Google’s AdWords advertising system allows advertisers, in return for payment, to select keywords so that their advertisements are displayed alongside the “natural” results arising from running a search on Google. These advertisements consist typically of a short commercial message and a link to the advertiser’s site; they are differentiated from natural results by their placement and design. In the cases in question, it was established that entering certain trade marks into Google’s search engine triggered the display of advertisements offering counterfeit versions of the products covered by the trade marks or identical or similar products of competitors. The Cour de Cassation referred the disputes to the ECJ for guidance on whether the use by Google, in its AdWords advertising system, of keywords corresponding to trade marks constitutes an infringement of those marks under Directive 89/104/EEC (the Trade Marks Directive) and whether Google could benefit from the hosting safe harbour under Directive 2000/31/EC (the E-Commerce Directive).

In the Advocate General’s view, by allowing advertisers to select keywords corresponding to the Claimants’ trade marks, Google was using such marks in the course of trade. However, allowing advertisers to select keywords so that their advertisements are presented as results did not involve the sale of any product to the public. The use was limited to a selection procedure internal to Google AdWords and concerned only Google and the advertisers. Consequently, there was no trade mark infringement for the purposes of Article 5(1) of the Trade Marks Directive because AdWords was not identical or similar to any of the goods and services covered by the trade marks.

The Advocate General accepted that by displaying advertisements in response to keywords corresponding to trade marks, Google establishes a link between those keywords and the sites advertised. However, this did not constitute trade mark infringement. Internet users processed advertisements the same way they processed natural search results. Even assuming that internet users were searching for the site of the trade mark proprietor, there was no risk of confusion on the part of the consumer as to the origin of goods and services.

The Advocate General did not consider that Google’s use of trade marks in its AdWords program constituted trade mark infringement where the mark had a reputation. Trade mark rights could not be construed as classic property rights enabling the trade mark proprietor to exclude any other use. The Advocate General expressed concern that, if trade mark proprietors were allowed to prevent those uses on the basis of

trade mark protection, they would establish an absolute right of control over the use of their trade marks as keywords.

With respect to whether Google's possible contribution through AdWords to trade mark infringements by third parties in itself constituted trade mark infringement, the Advocate General said that trade mark proprietors would have to point to specific instances giving rise to Google's liability in the context of illegal damage to their trade marks. He suggested that this would fall to be determined under national laws.

While accepting that there is nothing in the wording of the definition of "information society services" in the E-Commerce Directive to exclude its application to the provision of hyperlinks and search engines and therefore to Google's search engine and AdWords, the Advocate General considered that the liability exemption for hosts under Article 14 of that Directive could not apply to AdWords. Whilst the search engine is a neutral information vehicle applying objective criteria, this was not the case with AdWords, where Google had a direct pecuniary interest in internet users clicking on the advertisements' links.

#### **PRACTICE NOTE**

If the ECJ agrees with the Advocate General, trade mark proprietors, even those of marks with a reputation, will have no recourse against Google under trade mark law, at least insofar as it derives from the Trade Marks Directive. However, on the Advocate General's view, AdWords does not qualify for safe harbour protection, so liability may arise under national laws in certain jurisdictions on account of AdWords potentially contributing to internet users being directed to counterfeit sites. This may lead to an inconsistency of approach to the lawfulness of AdWords across Europe.

## **E-COMMERCE, IT & BANKING TECHNOLOGY**

### **Financial Promotions: Misleading Keywords**

Financial services firms keen to protect the integrity of their brands have received an unexpected fillip from the UK's Financial Services Authority (FSA). In its Guidance on Online Sponsored Links, published jointly with the Office of Fair Trading (OFT) at the end of August, the FSA states that firms should not buy up keywords from search engines like Google in the name of other firms and competitors "if this could result in misleading the consumer or creating an expectation that their firm is the same as the one the consumer has searched on". The phrase "independent financial adviser", for example, should not return firms that are not independent. The Guidance expresses the FSA's expectation that firms should have adequate systems and controls in place to ensure that they do not buy keywords or terms that result in misleading sponsored link returns. This means they will have to work with search

engines to ensure that sponsored links are not returned on searches unless the search terms are reflected accurately in the link and the website returned by the link.

The new Guidance is uncompromising and has little sympathy for the workings of the internet. The main point is that sponsored links should not resolve to web pages promoting or offering products that do not tally with the expectations of the customer, not only as provoked by the sponsored link itself but also by the customer's expectations derived from the search term entered into the browser. This gives advertisers of financial services and products little room for manoeuvre as the FSA does not appear to accept that consumer expectations may change as he proceeds from entering a search term into the browser to perusing the "natural" search results and then reviewing separately the sponsored links. Interestingly, the FSA appears to cut through some of the arguments that are heading towards the European Court of Justice (ECJ) under trade mark law in relation to whether consumers may be misled by advertisers who buy up competitors' trade marks as keyword triggers for their sponsored links. In that sense, the FSA may have given brands in the financial services sector protection that they may not enjoy under trade mark law.

### **Vertical Restraints: Online Sales and Selective Distribution**

The current Vertical Restraints Block Exemption (2970/1999/EC) is due to expire in May 2010 and the European Commission has launched a public consultation on its proposal for a revised Regulation to replace it. Drafts of both the revised Regulation and the accompanying Guidelines on Vertical Restraints were published on 8 July 2009.

The Commission considers that two major developments have marked the 10 years since the Regulation came into force: first, an increase in the market power of large distributors and second, internet sales. As a result, it proposes to impose a threshold of 30 per cent of market share on buyers as well as sellers, in order for an agreement to benefit from a block exemption under the replacement to Regulation 2970/1999. In relation to online sales, the Commission wishes to protect the advantage to consumers resulting from their ability to purchase goods and services across borders, which it sees as one of the benefits of the increase in internet sales. On the other hand, it appreciates that sales restrictions which aim to limit or prevent distributors from taking unfair advantage of the marketing and brand promotion of others enable consumers to benefit from better services.

The proposed Block Exemption addresses this by drawing a distinction between active sales, which are the result of a sales and marketing initiative on the part of the seller, and passive sales achieved as a result of an unsolicited approach from a consumer, which must be free from restrictions. The

distinction is a crucial one for luxury brands in determining their distribution strategies.

The Guidelines make it clear that under the proposed Block Exemption, a supplier may impose quality standards on a distributor and a distributor's website. For example, a supplier may require its distributors to have a bricks and mortar shop or showroom before engaging in online distribution.

It is anticipated that all internet sales will be treated as passive sales for the purposes of the block exemption. The Regulation lists a number of "hardcore" restrictions that lead to the exclusion from the scope of the Regulation of the whole vertical agreement, a number of which apply to the restriction and control of internet sales. Any attempt that falls within the hardcore exemptions to restrict internet sales within the Community will take a vertical agreement outside the block exemption.

Although the change to the operation of the market share thresholds has raised concerns over a potential reduction in legal certainty, the new guidance on the application of and exceptions to the hardcore restrictions provides welcome clarification of the position in relation to online retailers and market places regarding luxury brands and such brands' desire to maintain their selective distribution networks.

## Representations on Website: Duty of Care

In *Gary Patchett v Swimming Pool & Allied Trades Association Ltd (SPATA)* [2009] EWCA Civ 717 (15 July 2009), the Defendant, a trade association for swimming pool installers, was sued unsuccessfully by the Claimants for negligence. The Claimants had used the Defendant's website to find a contractor, Crown to build them a swimming pool. Crown became insolvent and the work had to be completed by other contractors. The Claimants alleged that this meant that they had to pay £44,000 more than if Crown had been able to complete the works. In suing SPATA for negligence, the Claimants, relied on paragraphs 1 and 6 on the "about us" page of SPATA's website.

- 1. Installing a swimming pool is a specialised task requiring skills and technical expertise in a number of different areas. One way of guaranteeing that the pool installation company has this expertise, is to make sure they are a member of The Swimming Pool and Allied Trades Association (SPATA) before contacting them for a quotation.*
- 6. SPATA pool installer members are fully vetted before being admitted to membership, with checks on their financial record, their experience in the trade and inspections of their work. They are required to comply fully with the SPATA construction standards and code of ethics, and their work is also subject to periodic re-*

*inspections after joining. Only SPATA registered pool and spa installers belong to SPATASHIELD, SPATA's unique Bond and Warranty Scheme offering customers peace of mind that their installation will be completed fully to SPATA Standards-come what may!*

The Claimants argued that these were negligent misstatements because Crown was not actually a full member of SPATA, was not a sound and competent contractor, was not credit worthy, became insolvent and provided installations that did not benefit from the SPATA guarantee.

At first instance, the claim was dismissed on the basis that SPATA could not owe the Claimants a duty of care because, while it no doubt knew that the representations on the website would be likely to be acted upon, it could not have known that it was likely to be acted upon "without independent inquiry". The Claimants had not contacted SPATA even though, as the judge saw it, paragraph (8) on the "about us" web page urged "independent inquiry":

- 8. SPATA supplies an information pack and members lists which give details of suitably qualified and approved installers in the customer's area. The pack includes a Contract Check List which sets out the questions that the customer should ask a would-be tenderer together with those which must be asked of the appointed installer before work starts and prior to releasing the final payment.*

In the Court of Appeal, Lord Clarke found that it could not fairly be held that SPATA assumed a legal responsibility to the Claimants for the accuracy of the statements in the website without further inquiry, which the website itself urged. It was common ground that, if the Claimants had asked for and obtained an information pack, they would have learnt the true facts. They would have learnt that Crown was only an affiliate member and that, as such, Crown was not the subject of the checks referred to and its customers would not have the benefit of the SPATASHIELD bond or warranty. In those circumstances there was not a sufficient relationship or proximity between SPATA and the Claimants for these purposes and it would not be fair, just and reasonable to hold that SPATA owed them a duty to take care.

The Court of Appeal upheld the decision of the lower court, with Lady Justice Smith dissenting. She believed that paragraph 8 simply gave an option to ask for further information, which the customer may well decide not to need.

## COUNTERFEITING & PIRACY

### Goods in Transit: When are Fake Goods not Counterfeits?

The European Commission reported recently that Customs authorities across 27 Member States seized 178 million fake items in 2008, up from 79 million in 2007. This increase of 125 per cent indicates that the international trade on counterfeit goods is on the rise.

However, a recent decision from the High Court in the United Kingdom provided a set back to seizure of such goods. In *Nokia Corporation v Her Majesty's Commissioners of Revenue and Customs* [2009] EWHC 1903 (Ch), Mr Justice Kitchin ruled on a point of considerable importance on seizure of goods in transit from one non-European Union country to another.

#### BACKGROUND

A consignment of fake Nokia phones and accessories were being shipped from Hong Kong to Columbia. At a transit stop at London Heathrow Airport, the goods were inspected. Despite Nokia's request to have the goods seized (in accordance with Council Regulation 1383/03, the Counterfeit Goods Regulation), Her Majesty's Revenue & Customs (HMRC) did not do so. HMRC did not consider the goods to be deemed counterfeit within the meaning of the Counterfeit Goods Regulation unless there was evidence that they might be diverted onto the European Union markets.

Nokia applied for a judicial review of HMRC's decision.

#### DECISION

It was held that allegedly counterfeit goods that are in transit through the European Union (EU) could not be seized as long as the goods were not destined for the EU market. These goods did not infringe UK trade mark rights as they were not intended for sale in the domestic market. Therefore the goods do not fall within the definition of "counterfeit".

He found that

- Infringement of a registered trade mark requires goods to be placed on the market and that goods in transit and subject to suspensive customs procedures do not, without more, satisfy this requirement.
- The "Montex" exception, where if the goods in transit are subject to acts of third parties, which necessarily entails their being put on the market, did not apply in this instance.
- The mere risk that the goods may be diverted is not sufficient to justify a conclusion that the goods have been or will be put on the market.
- The Counterfeit Goods Regulation has not introduced a new criterion for the purposes of ascertaining the existence of an

infringement of a registered trade mark or to determine whether there is a use of the mark that is liable to be prohibited

#### UNSATISFACTORY CONCLUSION

In reaching his conclusion, Mr Justice Kitchin expressed his regret:

*I recognise that this result is not satisfactory. I can only hope it provokes a review of the adequacy of the measures available to combat the international trade in fake goods by preventing their transshipment through Member States.*

This disappointing conclusion for brand owners shows that the limitations in the Regulations need to be addressed. We await effective legislative changes or an appeal decision which will hopefully deal with this limitation but for now, fake goods in transit may not be considered counterfeits.

## TRADE MARKS

### You Can't Be A Virgin All Your Life...

In *BL O-216-09 Bodtrade 54 (Pty) Ltd (Virgin Enterprises Ltd's opposition)* (23 July 2009), it was found that there was little similarity and no likelihood of confusion between the phrase YOU CAN'T BE A VIRGIN ALL YOUR LIFE ITS TIME and the widely recognised VIRGIN marks owned by Virgin Enterprises Ltd. The UK Intellectual Property Office rejected Virgin's opposition on all grounds and allowed the registration of the first mark containing the word "virgin" which is wholly unconnected with the Virgin group.

Bodtrade 54 (Pty) Ltd applied to register the phrase YOU CAN'T BE A VIRGIN ALL YOUR LIFE ITS TIME in respect of telecommunications and café services. Virgin opposed the registration on the basis of its earlier registrations for VIRGIN MOBILE and VIRGIN for identical services under Section 5(2)(b), 5(3) and 5(4) of the Trade Marks Act 1994, alleging respectively that Bodtrade's mark was likely to cause confusion, would take unfair advantage of the reputation of Virgin's earlier registrations and infringe its common law rights.

Virgin gave evidence that, with the exception of some marks registered for olive oil, in which the word "virgin" was descriptive and a mark VIRGIN HILLS, which was registered pursuant to an agreement with Virgin, all registered UK trade marks featuring the word "virgin" were owned by Virgin.

Virgin also gave evidence that it regularly introduced new products under the VIRGIN mark, together with either a descriptive word or a distinctive sub brand. It argued that members of the public had an expectation that Virgin or its licensees would frequently launch new and different products

and that any new marks incorporating the word “virgin” would emanate from the Virgin group. Accordingly, any third party use would confuse members of the public, trade on the reputation of Virgin and risk damage to Virgin’s reputation, as Virgin would have no control over the goods or services offered under the third party mark.

Allan James, the IPO hearing officer, accepted Virgin’s submissions that the services covered by the two marks were identical and that Virgin’s earlier marks were highly distinctive. However, he considered that there was little visual or aural similarity between the two marks, since the only similarity was that Virgin’s mark made up the fifth word in Bodtrade’s ten word mark. Turning to conceptual similarity, Mr James considered that the fact that Virgin used the word VIRGIN as a brand did not mean that it lost its original meaning. He accepted that Bodtrade’s mark was not limited to a person who had not had sexual intercourse, but rather that it used the word “virgin” figuratively, to indicate a suggestion that it was time to try something for the first time. Although the word “virgin” was distinctive, being only a small part of a ten word phrase he did not consider that it was the dominant or distinctive element of Bodtrade’s mark and concluded that there was little similarity between the marks.

Mr Allen held that the average consumer (being either a business or a member of the general public in respect of telecommunications services and a member of the general public in respect of café services) would not expect there to be an economic connection between Virgin and Bodtrade. The ground of opposition based on Section 5(2)(b) therefore failed.

Considering the Section 5(4) ground, Mr Allen accepted that Virgin enjoyed protectable goodwill at the relevant date. However, since he concluded that there was no likelihood of confusion, this ground of opposition also failed.

As regards unfair advantage, in the light of the European Court of Justice decisions in *General Motors* [1999] C-375/97, *ETMR* 950, *Intel C-252/07* [2009] *ETMR* 13, *Adidas-Salmon C-408/01* [2004] *ETMR* 10 and *L’Oreal v Bellure C-487/07*, Mr Allen considered that the relevant factors were that

- Virgin’s mark was highly distinctive for the services at issue.
- Virgin’s mark was essentially unique on the UK market.
- The services and users were the same.
- Virgin’s VIRGIN mark had a huge reputation generally, and its VIRGIN MOBILE mark had a smaller reputation in the field of telecommunications services.
- There was very little similarity between the two marks.

Mr Allen held that the final factor meant that the relevant public would make no link between Bodtrade’s mark as a whole and Virgin’s. He went on to state that even if there were such a connection, since he had already found that there was no likelihood of confusion, the opposition under Section 5(3) also failed.

Virgin has said that it felt it had no choice but to oppose this mark, as Bodtrade had not said what it planned to do with the mark and very little background information about the company was available. It remains to be seen whether Virgin will appeal the decision.

## PATENTS

### COSTS: INDEMNITY BASIS

In *Edwards Lifesciences AG v Cook Biotech Inc.* [2009] EWHC 1443, Mr Justice Kitchin refused to award costs on an indemnity basis even though the patentee’s conduct escalated the Claimant’s costs in failing to properly address the question of the independent validity of the patent claims and instigating a disclosure exercise that was a “monumental waste of time and money”.

### BACKGROUND

Edwards Lifesciences AG sought revocation of a European patent in the name of Cook Biotech Incorporated relating to an artificial heart valve. Cook Biotech, in turn, alleged that a valve manufactured by Edwards infringed the patent. Kitchin J held that the patent was invalid and not infringed and that Edwards was entitled to an award in respect of its costs.

### COSTS ISSUES

Edwards submitted that Cook should bear the costs on an indemnity basis as the conduct of Cook was “such as to take the situation away from the norm”.

Cook initially maintained that all 34 claims of the patent were independently valid. After an interim court order, it reduced the number to 25. Following the exchange of expert reports, it revised this number to 10 and, at trial, Kitchin J was asked to consider only 9 claims.

Cook also sought disclosure of documents relating to the development of Edwards’ valve, which Edwards stated were of no relevance to the case. A hearing before Mann J did not resolve the matter and Cook continued to demand the documents. In the end, Edwards provided over 10,000 documents at a cost of around £90,000. An employee of Edwards made a witness statement relating to the documents and was available for cross examination at trial, but Cook did not call him for cross examination and the documents were never referred to at trial.

Cook, however, submitted that Kitchin J should apply a discount to the costs claimed because Edwards relied upon a

number of pieces of prior art which it abandoned before trial and others upon which its case failed.

#### DECISION

Kitchin J referred to the discretion afforded to the Court by part 44.3 of the Civil Procedure Rules and to the judgment of Jacob LJ in *SmithKline Beecham plc v Apotex Europe Ltd (No. 2)* [2005] FSR 24 in which he stated that, so far as it could reasonably do so, the court should apply an issue by issue approach to costs. Failing this, the court must determine whether or not it was reasonable to pursue or contest a particular allegation, having regard to proportionality.

Kitchin J held that Cook's failure to address the question of independent validity of the claims in a timely manner had resulted in an unnecessary increase in Edwards' costs. He also noted that Cook had persisted in pursuing disclosure after the hearing before Mann J, but that it did so in accordance with the direction of the judge. Kitchin J held that the fact that such a large number of documents were produced by Edwards and that Cook did not deploy any of them at trial was not sufficient justification to award costs on an indemnity basis: Cook was entitled to consider the documents and conclude that they did not assist its case.

Instead, Kitchin J determined that Edwards' assessed costs should have a 20 per cent deduction applied to them, as Edwards did not win on all issues and that its costs were "extraordinarily high" for a patent action of no great complexity lasting only seven days in court.

#### COMMENT

In the judge's words, the case provides "a salutary reminder that disclosure in patent actions costs a great deal and is rarely of any use." He concluded that the answer was not to penalise the party requesting extensive disclosure by awarding indemnity costs against them, but "for the court and the parties to be much more robust in ensuring that this kind of futile exercise is not engaged upon in the first place and that any disclosure is both necessary and proportionate."

Even allowing for the deduction awarded by Kitchin J, Cook is looking at a bill of around £3,000,000 in respect of both sides' legal costs.

#### Online Gambling System - Obviousness and the Principle of Implicit Disclosure

In *Cranway Ltd v Playtech Ltd* [2009] EWHC 1588 (Pat) (7 July 2009), an infringement action relating to a patent for an online gambling system, Mr Justice Lewison has held that claim 1 was anticipated by the prior art, that the relevant claims of the patent were obvious and that the invention fell within excluded subject matter by virtue of it being a computer program as such and business method.

#### BACKGROUND

Cranway sued Playtech and the Tote for infringement of its patent for a system aimed at auditing security and fairness and to prevent cheating. Playtech and Tote denied infringement and counterclaimed that the invention lacked novelty, that the invention was obvious and that the patent in suit was excluded from patentability.

The parties disagreed on the identity of the skilled addressee. This question was important because the case turned on whether or not the skilled addressee would understand the patent to be limited to gaming for "real money". In this case, Cranway argued that claim 1 was to be construed narrowly, limiting it to gaming with "real money" in order to avoid the patent being anticipated by the prior art.

#### DECISION

In order to resolve the dispute about the person skilled in the art, Lewison J held that he needed to construe the claims of the patent. Following Jacob LJ's summary of the general principles of claim construction in *Mayne Pharma Pty Ltd v Pharmacia Italia SPA* [2005] EWCA Civ 137, he held that the extent of protection was to be determined by the claims, which should be construed in the context of the description and drawings.

The question for the court to decide was what the person skilled in the art would have understood the patentee to have been using the language of the claim to mean. The claims should be read in light of the inventor's purpose in the context of the description and drawings but not so widely as to ignore the literal meaning and to use the claims as a mere guideline. Therefore, the claims must be construed in between the literal and purposive extremes. Moreover, there is no "doctrine of equivalents."

Lewison J noted that the claim did not explicitly mention "real money", the only reference being in the description, which stated "A person wishing to play a game of chance from a remote PC establishes an account with a casino or host operator, deposits an opening balance..." (author's emphasis).

Lewison J held that this was a no more than a non-limiting description of a preferred embodiment and held that the link with "real money" was not implicit in the description of the invention as a "gaming system".

Following *European Central Bank v Document Security Systems Inc* [2008] EWCA Civ 192, Lewison J held that the principle of implicit disclosure could apply to disclosure by the prior art, although it usually arises in cases involving added matter. He rejected Playtech's argument that if a known product had feature X and the skilled person would assume that the presence of X meant that feature Y was also present, then both X and Y had been disclosed, even if feature Y did not

exist, preferring Cranway's view that there would be no disclosure of Y unless it actually existed. Lewison J devised the following test for disclosure:

- If the product contains feature X and also shows clearly that it also has feature Y, and it does in fact have feature Y, then both X and Y have been disclosed.
- If the product contains feature X and the skilled person would take it for granted that it also included feature Y, and it did in fact contain feature Y, then both X and Y have been disclosed.
- If the product contains feature X and the skilled person would take the view that it probably contained feature Y, then even though it does in fact contain feature Y, only X has been disclosed.
- If the product contains feature X but does not contain feature Y then, however confidently the skilled person believes that it does, Y has not been disclosed.

Applying this test and adopting Playtech's interpretation of the skilled addressee, Lewison concluded that the patent had been anticipated.

Further, Lewison J stated that the only addition Cranway's patent made to the state of the art was the idea of gambling with "real money". The only technical contribution lay in the software, since the patent used known hardware and architecture. Applying the test in *Aerotel v Telco* [2007] RPC 7, since there would be no invention if the computer program was ignored, Lewison J decided that the patent in suit was a computer program as such. Moreover he found that the only technical contribution (solving a business problem) lay solely in excluded matter (a business method), which excluded the patent under Article 52(2)(c).

Lewison J held that the patent was invalid, but that if it had been valid, claim 1 would have been infringed.

#### COMMENT

This case provides another example of the courts' criticism of the parties' skills wish lists when selecting their teams of experts. As with disclosure (see *Edwards Lifesciences AG v Cook Biotech Incorporated*), the trend is towards saving costs by the preparation of more focused evidence. We have not yet reached the stage where the courts routinely curb the instruction of experts at the directions stage, but parties should be prepared to risk a costs penalty if the preparation of their evidence offends against the overriding objective.

## DATA PROTECTION

### Loss of Laptops Containing Personal Data - Remedial Action and Undertakings

Repair Management Services Ltd, a trade body that advises vehicle repair businesses, and UPS, the transportation and logistics business, have signed undertakings publicly in relation to protection of personal data following the loss of data by those companies. Consequently, it was not necessary for the Information Commissioner to serve Enforcement Notices on the companies under the Data Protection Act 1998.

#### SEVENTH DATA PROTECTION PRINCIPLE

It is the duty of a data controller to comply with the data protection principles in relation to all personal data it controls. The Seventh Data Protection Principle of the Act requires that appropriate technical and organisational measures shall be taken against unauthorised or unlawful processing of personal data and against accidental loss or destruction of, or damage to, personal data.

#### REPAIR MANAGEMENT SERVICES LTD

The Information Commissioner's Office (ICO) took action against Repair Management Services Ltd following the theft from a car of an unencrypted laptop containing data including personal information and information on motoring convictions. A proportion of the personal data related to criminal convictions, which constitutes sensitive personal data under the Act.

The ICO found that the company did not ensure sufficient security measures were in place to prevent the unauthorised or unlawful processing of this data. A particular concern was that the data was not protected by a minimum standard of encryption.

The company undertook to ensure encryption of mobile devices used to store and transmit personal information, including laptops and to train staff on the company's policy on the storage and use of personal information.

#### UPS

The ICO took action against UPS after an unencrypted password protected laptop was stolen from one of UPS' employees. The laptop, which was not recovered, contained the payroll data of approximately 9,150 UPS employees.

UPS undertook to implement appropriate data security programmes and procedures regarding removable media, including the use of encryption where appropriate and that all appropriate employees are made aware of and adhere to the relevant company policies.

#### COMMENT

All organisations must ensure personal information entrusted to them is secure. As a minimum, personal data, especially sensitive personal data, stored on portable devices like laptops, USB sticks and CDs, should be encrypted. The ICO also advises data controllers to restrict the amount of personal information that is taken off secure sites.

The ICO's approach is to deal with breaches by accepting undertakings concerning compliance. However, the ICO's 2008 action against Marks & Spencer illustrates that it will take action if a data controller is only prepared to make undertakings provided they are not made public.

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