



COMMERCIAL

MGB Printing and Design Ltd v Kall Kwik UK Ltd **[2010] EWHC 624 (QB)**

MGB Printing and Design (MGB) entered negotiations to purchase an existing printing franchise with the franchisor, Kall Kwik UK Ltd (Kall Kwik). It became clear that the current franchisee's premises required refitting. Kall Kwik advised that this would cost between £10,000 and £20,000; £15,000 was therefore included in the relevant cash flow document. Kall Kwik also advised MGB that historical client data stored by the existing franchisee would be installed on MGB's computers before the business launch. MGB made clear that it would not purchase the franchise without this and Kall Kwik confirmed that the installation would happen.

The parties duly entered into a franchise agreement. MGB also entered into a sale and purchase agreement with the current franchisee. Kall Kwik and MGB entered into a "marketing launch plan agreement", obliging Kall Kwik to provide assistance with marketing and advertising.

It transpired that the refit would cost between £30,000 and £45,000 and that Kall Kwik would not install the client data. Kall Kwik also failed to provide adequate marketing and advertising assistance to MGB.

MGB sued Kall Kwik for negligence in respect of the advice regarding the refitting costs and for breach of contract in respect of the franchise and marketing launch plan agreements.

The High Court held that Kall Kwik owed a duty of care to MGB, that it had breached this duty, and had been negligent in the advice it gave in respect of the re-fitting. It held that a "no responsibility or warranty" clause in the cash flow document could not be relied on by Kall Kwik as the claim centred on discussions that took place about one particular aspect of the cashflow: the refit. Further, a limitation clause relating to misrepresentation in the franchise agreement did not apply as this was an action for negligence based on the relationship between MGB and Kall Kwik *vis-à-vis* the sale of the business. Also, the Court found that Kall Kwik was in breach of contract by not complying with its obligations to provide quality

marketing advice and support to its franchisee and by failing to install the customer data.

This case adds nothing new to the law on negligence. However, it highlights that a franchisor may owe its franchisee a duty of care that exists separately from its contractual obligations under the franchise agreement. In such a situation, exclusion and limitation of liability clauses in respect of pre-contractual statements and discussions, designed to prevent claims in misrepresentation, will not be of use. Care must thus be taken by franchisors when advising any potential franchisee, before entering into agreements.

Handelsgesellschaft Heinrich Heine GmbH v Verbraucherzentrale Nordrhein-Westfalen eV **15 C-511/08 April 2010 (Unreported)**

Heine, a German mail-order company, had standard terms and conditions of sale that the consumer would pay a standard flat-rate of EUR4.95 for delivery costs and that this would not be refunded by the supplier if the customer withdrew from the contract.

A German consumer association sought an injunction to restrain Heine from charging delivery costs after a withdrawal. The injunction was granted at first instance and the Higher Regional Court in Karlsruhe dismissed Heine's appeal. Heine appealed to the German Federal Court of Justice (GFCJ).

The GFCJ held that German law did not grant the buyer any right to reimbursement of delivery costs, but held that if the Distance Selling Directive (DSD) precluded the charging of delivery costs after a withdrawal, the German Civil Code would have to be so construed such that the supplier must reimburse the delivery costs to the consumer. The GFCJ stayed proceedings and sought a preliminary ruling from the European Court of Justice (ECJ) on whether Articles 6(1) and (2) of the DSD precluded such national legislation.

The ECJ held that Articles 6(1) and (2) must be interpreted as precluding national legislation that allows the supplier under a distance contract to charge the costs of delivering the goods to the consumer where the latter exercises his right of withdrawal. The DSD thus obliges online retailers to refund the original cost of delivery to consumers who withdraw from the contract.

The only permissible cost that retailers can pass on to consumers is the cost of returning the goods.

This decision should not affect most UK-based online retailers: it is in line with the Office of Fair Trading's (OFT) interpretation of this aspect of the DSD. The OFT has expressed the view that "the normal postage and packing charges for the delivery, but not the return, of distance sales purchases, must always be refunded in addition to the cost of the goods when orders are cancelled during the cooling off period". The ECJ's endorsement of that position will be welcomed by consumers, who can now expect a refund of their delivery charges whether dealing with UK or non-UK online retailers within the European Union. At the same time, UK retailers will be assured that they have not been refunding charges on an unjustified whim of the OFT.

TRADE MARKS AND PASSING OFF

***Pavel Maslyukov v Diageo Distilling Ltd and Diageo Scotland Ltd* [2010] EWHC 443 (Ch): Bad Faith and Residual Goodwill**

BACKGROUND

In 2006 and 2007, Mr Maslyukov filed applications with the UK Intellectual Property Office (IPO) to register the trade marks DALLAS DHU, CONVALMORE and PETTYVAICH.

Diageo opposed the applications as being descriptive, contrary to public policy and deceptive and argued that the applications were made in bad faith and an attempt by Mr Maslyukov to pass off the whisky as that of Diageo's. In 2006 Diageo filed an application to register the trade mark DALLAS DHU, which Mr Maslyukov opposed.

In 2009 the IPO hearing officer upheld Diageo's oppositions to Mr Maslyukov's applications, but only on the ground of bad faith. It followed that Mr Maslyukov's opposition failed, which he then appealed. Diageo appealed the hearing officer's rejection of its additional grounds of opposition to the High Court and requested affirmation of the hearing officer's decision to uphold the oppositions to Mr Maslyukov's applications, but on the basis that the applications were an attempt at passing off, or in the alternative, that the marks were descriptive and deceptive.

MR MASLYUKOV'S APPEAL

Arnold J found Mr Maslyukov had applied to register the marks in bad faith as his dealings had fallen short of the standards of acceptable commercial behaviour. Mr Maslyukov knew that the marks were the names of distilleries that were no longer functioning and he had no relationship with the distilleries. There was no other evidence as to why Mr

Maslyukov wished to use these marks, other than as a springboard for his own whisky business.

DIAGEO'S APPEAL

Arnold J found that the Court did not have jurisdiction to hear Diageo's appeal. This was because it was an appeal by the successful party and was therefore contrary to the principle in *Lake v Lake* [1995] where it was decided that an attempt by a successful party to appeal against an order obtained in that party's favour could not be heard by the court. Despite this, the judge considered it worth setting out his findings on the issue of passing off.

The hearing officer had found that Diageo had not made out its case on this ground because it had not established its ownership of any current or residual goodwill in the marks at the relevant time.

Arnold J found that as Diageo had a stock of malt whisky distilled at Convalmore, which it had marketed recently under the CONVALMORE mark and which it intended to market in the future, Diageo owned the current goodwill in the mark and it was immaterial that there was no probability of whisky being distilled at the distillery again.

As for DALLAS DHU and PETTYVAICH, independent bottlers of the whisky had continued to market and sell whisky using these trade marks, as well as their own. The hearing officer had acknowledged the use of DALLAS DHU and PETTYVAICH, but had found that the goodwill generated had not accrued to Diageo.

The judge disagreed and found that the bottlers had generated goodwill on their own behalf as well as on behalf of Diageo. They had relied upon the goodwill that was already established under the Diageo marks, sustained that goodwill and generated new goodwill for the benefit of Diageo.

Diageo had also argued against the hearing officer's decision that there was no residual goodwill as the distilleries no longer distilled whisky.

The judge found that the correct test was whether or not the relevant business had been abandoned so as to destroy the goodwill; mere cessation was not enough. Here, he did not consider that the relevant business had been abandoned so as to destroy the goodwill. Diageo had not liquidated the companies that owned the distilleries but had in fact continued to produce whisky on a substantial scale. The goodwill in the marks had not, therefore, been destroyed when production of whisky at the distilleries ceased; it had been maintained by further sales, either by Diageo or by independent bottlers. In any event, the goodwill remained Diageo's asset of to exploit as it saw fit.

COMMENT

Arnold J's assessment of the subsistence of residual goodwill is a useful one. The key point is whether a positive step has been taken to abandon the goodwill. Each case will, clearly, turn on its own facts, but what is more difficult to assess is what happens to the goodwill if trading ceases, no actual abandonment of the goodwill takes place, but no further use is made of the marks in question.

Weldebräu v The Office of Harmonization for the Internal Market T-24/08 [2010]

The General Court of the European Union has upheld an appeal from the Fourth Board of Appeal of The Office of Harmonization for the Internal Market (OHIM), rejecting an opposition to an application to register the three-dimensional shape of a bottle as a Community trade mark (CTM), based on an earlier Community registration for a bottle shape in respect of identical and similar goods.

BACKGROUND

In 2003, Kofola Holding a.s. filed an application to register a CTM for the bottle below which had the word "snipp" engraved at the bottom, for various classes of goods including coffee, tea and fruit juice.



Weldebrau GmbH & Co KG opposed the application under on the grounds that it was similar to its own trade mark (see below) and registered under similar classes of goods and thus there existed a likelihood of confusion.



The Opposition Division originally rejected the opposition in its entirety. Weldebrau appealed and the Fourth Board of Appeal dismissed the appeal, finding that there was no likelihood of confusion due to the average degree of distinctiveness of Weldebrau's mark and the significant differences between the signs. Weldebrau appealed to the General Court, arguing that the Board had erred in its assessment of a likelihood of confusion between the marks.

DECISION

In assessing the similarity of the marks, the Court found that, as it was a three-dimensional mark, it could only undertake a visual assessment. As Weldebrau's mark did not incorporate any wording and the word "snipp" on Kofola's mark was small and difficult to see, no phonetic analysis could be carried out. No conceptual comparison could be made as the marks did not convey any meaning.

The Court found that the Board had held correctly that there were visually significant differences between the marks. Weldebrau's mark depicted a longer, slimmer and more delicate bottle shape than that of Kofola's. Further, although both necks were helical, they had different spirals: the neck of Weldebrau's mark was thinner, with only two helical turns, whereas Kofola's mark was wider and had four helical turns. The actual shape of each neck was different. The Court found, therefore, that there was only a low degree of visual similarity between the marks.

As for the likelihood of confusion, the Court noted that, according to case law, in carrying out a global assessment, a low degree of similarity between the marks may be offset by a high degree of similarity between the goods and vice versa. Despite the fact that the goods were identical and very similar, the Court did not find any likelihood of confusion since Weldebrau's mark had only an average degree of distinctiveness and it had not submitted any evidence of the mark having acquired increased distinctiveness by virtue of its intensive use or reputation. In essence, Weldebrau was asking the Court to find a likelihood of confusion based on the fact that the two bottle shapes had a spiral neck. However, since there were significant differences between each of the spiral necks, there could be no likelihood of confusion even though

the goods were identical and very similar. The Court also held that the consumer would place more importance on a label or logo affixed to the bottle rather than its physical appearance. Weldebrau's appeal was therefore dismissed in its entirety.

COMMENT

Weldebrau had submitted that it had received various prizes for the special design of the bottle, which, it said, confirmed the unique and unusual appearance of its bottle mark. However, this did not, in the Court's view, show that the bottle shape was more than averagely distinctive as a trade mark. It would seem that what might have helped Weldebrau would have been to prove that its mark had acquired more than average distinctiveness through intensive use and reputation and was therefore more powerful as an indicator of origin than any label that might be affixed to it.

COUNTERFEITING AND PRIVACY

***Twentieth Century Fox Film Corporation v Newzbin Ltd* [2010] EWHC 608 (Ch): Major Victory for Film Industry Against Online Piracy**

Mr Justice Kitchin's judgment in this case represents a major victory for the film industry against online piracy. The uncompromising judgement determined that a Usenet search service infringed film studios' copyright when it provided the means by which its "premium members" could, with the click of a mouse, sweep the Usenet platform and retrieve binary component film files to reconstitute whole movies that could then be burned to DVD.

BACKGROUND

Newzbin owns and operates a website (Newzbin) that acts as a search engine directed to Usenet. Usenet, originally designed as a platform for posting and retrieving text content by its users, evolved subsequently to support larger non-text, or binary, content, which includes films, TV shows, etc. Large binary files have to be split into smaller files that are then uploaded individually to Usenet. To retrieve the content as a whole, users have to download each component file individually and reassemble all files sequentially. Or they can use Newzbin's NZB files, which collect all related binary components from Usenet and reassembles them into the original binary content.

Newzbin also uses members known as "editors" to check the quality of messages posted on Usenet and to cross-reference them for ease of use by end-users. Editors are encouraged to focus on binary content.

Twentieth Century Fox, along with five other makers and distributors of films (referred to collectively as Fox), brought an action for infringement of copyright. Fox claimed that Newzbin infringed their copyrights by: authorising acts of infringement by its members and procuring, encouraging and

entering into a common design with its members to infringe and communicate copyright films to the public.

Newzbin argued that, like online search engines, it was "content agnostic" and provided a passive service, acting simply as an "intermediary in providing a link to the sites from which Fox's films may be downloaded". Newzbin also asserted that it had no knowledge of any infringing material being made available via its website.

DECISION

Kitchin J held that by allowing the creation of NZB files and the actions of the editors, Newzbin actively provided the means for copyright infringement, which amounted to "authorisation" under Section 16 of the Copyright, Designs and Patents Act 1988

It was well established that a person who procures an infringement of copyright is liable joint and severally with the infringer. Kitchin J found that the Newzbin website was designed and intended to make infringing content available to its premium members. Further, Newzbin had induced its editors to create reports of films protected by copyright, assisted its premium members to engage in infringing acts and had profited from the infringement. On the evidence, Newzbin had procured, encouraged and entered in a common design with its premium members to infringe.

Fox's case, under Section 20(2)(b) CDPA, was that Newzbin made their films available to the public by electronic transmission in such a way that members of the public could access them from a place and at a time chosen individually by them.

Kitchin J noted that Newzbin charged a fee to allow access to the NZB facility and had set up a sophisticated system to allow its premium members to download films from a place and at a time chosen individually by them, with full knowledge of the consequences of its actions. In the light of Article 3 of the Copyright Directive (2001/29/EC) and the guidance provided by the European Court of Justice, the concept of communication to the public should be interpreted broadly, the judge concluded that Newzbin had infringed by communicating to the public.

Kitchin J was clearly not impressed with what he regarded as flagrant infringement by Newzbin. The evidence showed that, contrary to its assertions, Newzbin was aware that the vast majority of the material made available through the Newzbin website was protected by copyright and that its users were infringing that copyright. Such matters, the judge stated, should be taken into account on enquiry as to damages in determining whether Fox was entitled to additional damages under Section 97 CDPA.

COMMENT

Whether search engines of any kind are truly "content agnostic" was immaterial; what was material was that Newzbin wasn't. The judge made much of the fact that Newzbin did not, as it claimed, treat "all content in the same way". In relation to binary content all aspects of Newzbin's service were aimed at allowing premium members to download copies of films, the majority of which were copyright protected. Copyright infringement was therefore inevitable and the means to infringe completely within Newzbin's control. It was by no means "passive".

European Commission Review of EU Legislation on Customs Enforcement of Intellectual Property Rights

BACKGROUND

Following its review of Council Regulation (EC) No 1383/2003 of 22 July 2003 (the Regulation) concerning customs action against goods suspected of infringing certain intellectual property rights (IPRs) and the measures to be taken against goods found to have infringed such rights, the European Commission has published a Consultation Paper entitled Review of EU Legislation on Customs Enforcement of Intellectual Property Rights. If, following the public consultation procedure, it is considered appropriate, the Commission will prepare a proposal to replace the Regulation.

QUESTION 1: CUSTOMS AUTHORITIES' COMPETENCE

The Regulation specifies the conditions for action by customs authorities where goods are suspected of infringing an intellectual property right, namely when such goods are entered for free circulation, export or re-export and when they are found during checks on goods entering or leaving the Community customs territory. The Commission seeks to determine the circumstances under which it is thought customs authorities should take action.

The options for the new Regulation range from only taking action when infringing goods are declared for release for free circulation, to doing so in any situation in which infringing goods are under customs supervision.

Any option selected must not affect substantive IP laws in the Member States or hinder unduly legitimate trade through the Community. It must take account of the concerns of India and Brazil in relation to delays of genuine generic medicines destined for developing countries and should make best use of available customs resources.

QUESTION 2: SCOPE OF THE REGULATION

The Regulation covers "counterfeit goods" (goods, or their packaging, that infringe trade marks), "pirated goods" (goods that infringe copyright and design right), goods that infringe patents (including supplementary protection certificates), plant variety rights and designations of origin or geographical designations.

The minimum that any new regulation could cover would be "counterfeit" and "pirate" goods, within the meaning of Article 51 of the Agreement on Trade-Related Aspects of Intellectual Property Rights, but the Commission invites views on exactly how far this should be extended.

QUESTION 3: DEROGATIONS

The Regulation does not apply to products made in breach of certain licence conditions between an IPR holder and its manufacturer (particularly "overruns"), parallel imports or small quantities of infringing goods of a non-commercial nature that are imported in travellers' personal luggage. The Commission seeks to determine whether these derogations should remain in place

QUESTION 4: SIMPLIFIED PROCEDURE FOR GOODS TO BE ABANDONED FOR DESTRUCTION

The Regulation sets out a simplified procedure for the destruction of goods that have been abandoned under customs authorities' control. This procedure does not require a court or other tribunal to determine whether or not they are infringing goods. But it is not mandatory currently and so, as noted in the Consultation Paper, provides for a non-uniform application between Member States. The Commission canvasses opinion on whether the procedure should be removed from the Regulation, left optional or imposed as a mandatory measure.

QUESTION 5: SMALL CONSIGNMENTS

The Commission acknowledges that the current regime is not equipped necessarily to tackle the rise in internet sales, particularly where goods are distributed by post or courier in small consignments. The Consultation seeks participants' views on whether a simplified procedure to deal with such small consignments is required and, if so, what should be considered as a small consignment.

The Consultation Paper puts forward one suggestion for the procedure where the IPR holder would not necessarily be involved and the holder of the infringing goods would be offered the possibility of abandoning the goods for destruction by the customs authorities.

QUESTION 6: COST OF STORAGE AND DESTRUCTION

Under the current regime, Member States are able to pass on the cost of storage and destruction of infringing goods to IPR holders. IPR holders have raised concerns regarding the attribution of these costs and it has been suggested that it may create an obstacle to the effectiveness of the provisions.

The Commission seeks views on the extent to which costs should be passed on, in particular, whether all costs should be borne by IPR holders as is currently the position, or only those costs incurred by the customs authorities themselves, leaving other costs to be borne in accordance with the relevant Member State's system for dealing with other civil or criminal enforcement of IP rights. The Commission also notes that there are frequently several intermediaries, such as shippers and

carriers, with whom the responsibility and cost of storage and destruction could legitimately be shared.

COMMENT

When the Counterfeit Goods Regulation first came into force, it was seen by IPR holders as an expedient way of dealing with the importation of counterfeits. It has since proven, however, to fall short of the protection that some IPR holders want. This Consultation provides an opportunity for IPR holders to be heard on their concerns relating to the practical application of the Regulation.

PATENTS

***Red Spider Technology v Omega Completions Technology* [2010] EWHC 59 (Pat): Insufficiency, Obviousness, Anticipation and Design Right**

Mr Justice Mann has held that a patent for a water injection valve was invalid for insufficiency, obviousness and anticipation. A further claim for design right infringement was also thrown out as Mann J held that Omega had used only the drawings from the patent, which pre-dated the design of Red Spider's valve. The case highlights a number of pitfalls for the unwary inventor.

BACKGROUND

Red Spider is the proprietor of a patent relating to a water injection valve for use in oil field exploitation. The patent described a type of valve (poppet valve) which, when placed inside a tube, allows a unidirectional flow of liquids. It comprised a region of the valve, called the "cutaway", which is said to be the invention of the patent.

Red Spider brought an action against Omega, a company that manufactures a similar valve, claiming patent infringement. Omega argued that the patent was invalid for insufficiency, lack of novelty and obviousness. In addition to the patent, Red Spider also claimed a design right in the valve, which it contended Omega infringed.

INSUFFICIENCY

When Mann J analysed the patent, he found a disparity between what was claimed in the patent and what Red Spider said was claimed. He noted that the first mention of the invention, the "cutaway", was not made until page 13 of the description. More crucially, Claim 1 did not make any mention of it at all.

The judge held that Claim 1 failed as it did not claim the invention relied on in this action. Red Spider's counsel accepted that there was nothing new in a valve whose outlet ports had a cross-sectional area which was greater than the inlet port and there was nothing new in the other integers of the claim. Claims 2-24 of the patent were dependent on claim 1 and were accordingly also invalid.

OBVIOUSNESS

To determine obviousness, the judge relied on the Pozzoli test and found that the invention was obvious in the light of at least some of the prior art.

Mann J held that the evidence presented did not assist much in linking the commercial success to the inventive concept of the valve and accordingly, he gave the evidence little weight.

ANTICIPATION

Unfortunately for Red Spider, it had begun selling the valve after the priority date, but before the filing date of the patent in suit. Having lost the priority date, the sale of the valve before the application for the patent was found to anticipate the patent. The patent failed on this ground too.

INFRINGEMENT

To add final insult to Red Spider, Mann J held that, even if the patent had been valid, it was not infringed by Omega.

COMMENT

Although Red Spider lost on every single count, many of the failings of Red Spider's case were common mistakes which serve to emphasise the importance of claim drafting. In particular, a number of cases have sought to rely upon commercial success to bolster a weak case on obviousness, but commercial success is only ever one piece of evidence which adds to the bigger picture on obviousness and, as this case highlights, it is never the end of the story.

***Les Laboratoires Servier v Apotex Inc* [2010] EWCA Civ 279: Enforcement of Cross-Undertaking in Damages and Set-Off for Unlawful Manufacture**

The Court of Appeal of England and Wales has reversed the decision of Mr Justice Norris in which he refused Servier permission to amend its pleadings post-trial to take account of a Canadian decision upholding the validity of a key patent and awarded Apotex millions of pounds in damages.

BACKGROUND

Les Laboratoires Servier owned a portfolio of patents relating to the compound Perindopril. The portfolio was based on a French patent for the compound and included a process patent for the method of manufacture of Perindopril (the '341 patent) and a patent for a new form of the compound known as "Form Alpha".

The Form Alpha patent was opposed before the European Patent Organisation (EPO) on the ground that it was obvious in light of the '341 patent. Whilst this opposition was pending, Apotex decided that the Form Alpha patent was invalid and developed its own version of Perindopril, manufactured by a process not covered by the '341 patent.

The EPO held the Form Alpha patent to be valid and Servier sued Apotex for infringement, seeking an interim injunction.

The injunction was granted, but at trial, Mr Justice Pumfrey held that the Form Alpha patent was invalid as it was anticipated by the '341 patent. This decision was upheld by the Court of Appeal, following which Apotex applied to the Court to enforce the cross-undertaking in damages that Servier had given in favour of Apotex at the time of the initial injunction and which had, by this stage, restrained Apotex from selling Perindopril for a period of seven years.

FIRST INSTANCE

While Mr Justice Norris was preparing his judgment on the award to Apotex under the cross-undertaking, Servier made an application to amend its pleadings to include the fact that the Canadian Federal Court had upheld the validity of a Canadian patent for Perindopril. Apotex's headquarters are in Canada, from where it manufactured Perindopril. This decision rendered the Apotex Perindopril an infringing product.

Norris J rejected Servier's application because it was made so late and because Servier could have made the application earlier. He went on to award Apotex the sum of £17.5 million plus interest on the cross-undertaking. Servier appealed.

COURT OF APPEAL DECISION

On appeal, Lord Justice Jacob found that Norris J had overlooked the overall effect of refusing the amendment. This was because, although Servier would be able to seek financial compensation for the manufacture that took place in Canada and any exports from Canada, it was not clear that any Canadian proceedings would result in the return of money paid to Apotex following Norris J's order in this country, because that order was in respect of manufacture that did *not* take place due to the interim injunction. Accordingly, Jacob LJ held that Norris J had wrongly exercised the discretion and that the Court of Appeal must now re-exercise it in allowing the amendment.

Jacob LJ stopped short of ordering Apotex to repay the £17.5 million plus interest, holding that Servier must pay the entire costs of the inquiry as to damages to date, because they could and should have raised this matter at the outset and they did not. Jacob LJ held that there would need to be a further hearing to determine whether these costs should be on a standard or indemnity basis and what the consequences would be of the Court of Appeal allowing the amendment.

COMMENT

It will be interesting to see whether the Court awards costs on an indemnity basis. Although that rarely happens, the issue of the Canadian patent was "out there" from the outset, since the Canadian case pre-dated the commencement of the English proceedings. Servier could have applied for the English proceedings to be stayed pending a decision in Canada, thereby saving wasted costs.

COMMUNICATIONS AND NEW MEDIA

***Kaschke v Gray* [2010] EWHC 690 (QB): Online Blogs and the Hosting Safe Harbour**

This appeal raises important questions relating to Regulation 19 of the Electronic Commerce (EC Directive) Regulations 2002 (Section I 2002 No 2013). The judgment appears to accept the proposition that the operation of a chat room is capable of falling within the definition of the provision of an information society service consisting of the storage of information, making it eligible for protection under the hosting safe harbour in Article 14 of the E-Commerce Directive (2000/31/EC).

Moreover, the safe harbour protection is not lost just because the site is also used for activities other than storage in this sense. However, any form of editorial control, even just checking a piece for spelling and grammar and making corrections, arguably goes beyond mere storage of information and takes the service provider outside the safe harbour, exposing it to liability for defamatory content on the blog.

BACKGROUND

This was an appeal by the second Defendant, Mr Hilton, against the refusal of his application for summary judgment against the Claimant, striking out a libel claim against him. The claim related to an allegedly defamatory blog posted by the first Defendant, Mr Gray, on Mr Hilton's website—labourhome.org—in April 2007. Ms Kaschke claimed that statements in the blog linked her to terrorism.

Mr Hilton applied for summary judgment on the basis that Ms Kaschke had no real prospect of success because he had a complete and independent defence under Section 1 of the Defamation Act 1996 and Regulation 19 of the E-Commerce Regulations 2002/2013 which implement the E-Commerce Directive into UK law.

DECISION

Reliant upon *Mulvaney v Betfair* [2009] EHC 133 and *Karim v Newsquest* [2009] EWHC 3205, the judge found that was no reason why the operation of a chat room should be incapable of falling within the definition of the provision of an information society service consisting of the storage of information. Thus there was no reason why it should not be an activity intended to be protected by Article 14 of the E-Commerce Directive and eligible for the exclusion from liability conferred by Regulation 19.

He further drew the conclusion that there was no reason why the protection should be withheld merely because a defendant who would otherwise qualify for protection, provided a different service which did not qualify for it.

In this case, the question was whether the information society service provided by the Defendant in respect of the information contained in the defamatory words consisted only of and was limited to storage of that information.

Mr Hilton from time to time identified recommended or recent blogs and his evidence showed that he might (but did not always) quickly check such pieces for spelling and grammar and make corrections. The issue was whether Mr Hilton did or did not in any way edit, amend or alter any of the content or appearance of Mr Gray's blog. It was not "wholly fanciful" that evidence in cross-examination might reveal that Mr Hilton's hosting of Mr Gray's blog went beyond mere storage. On that basis, the Master was correct in refusing to strike out Ms Kaschke's claim.

COMMENT

The clear message from Stadlen J's judgment is that intervention of any sort at any time, whether pre or post-moderation for offensive content, or merely correcting dispassionately grammar or spelling, takes the service beyond mere storage and outside the safe harbour. Nonetheless the case is also significant for its endorsement of the broad application of Regulation 19 in *Karim*, extended arguably still further by the judge's finding that the relevant service for the purposes of the defence was not the hosting of all blogs on the website but the hosting of particular information provided by a particular recipient of the service, as opposed to the storage of all information provided by all recipients of the service.

ENTERTAINMENT AND MEDIA

The Digital Economy Act 2010

The Digital Economy Act 2010 (DEA) was enacted on 8 April 2010 as a result of the recommendations in the *Digital Britain Report*.

OFCOM: NEW POWERS AND DUTIES

Ofcom, the independent regulator and competition authority for the UK communications industries, is now required to report on the United Kingdom's communications infrastructure every three years, on media content at least every five years and on domain names when it is asked to do so. The DEA also extends Ofcom's duty to report on public service broadcasters to cover reporting on the delivery of public service media via other platforms, including the internet and television on demand.

COPYRIGHT

The DEA imposes obligations on Internet Service Providers (ISPs) aimed at combating unlawful file-sharing and introduces a power to make regulations requiring ISPs to block access to websites that are used, or are likely to be used, to infringe copyright. It also increases the penalties for online copyright infringement.

DOMAIN NAMES

The DEA introduces new powers to prevent potential abuses in light of the liberalisation of the generic top-level domain market.

BROADCASTING

The DEA extends the scope of Channel 4's remit beyond television to the provision of content on a range of different delivery platforms. The DEA also relaxes the requirement that Ofcom structures the distribution of Channel 3 licences on a regional basis.

The DEA makes provision for the digital switchover of radio broadcasting, giving Ofcom the power to terminate analogue licences for independent radio services on two years' notice.

ELECTROMAGNETIC SPECTRUM

Ofcom has been unable to reach a consensus with mobile phone operators about the reallocation of radio frequencies within the spectrum required to develop the next generation of mobile broadband services. The DEA therefore allows Ofcom to temporarily cap the amount of spectrum that any one operator can hold, thereby forcing operators to relinquish some of their holding.

VIDEO GAMES

The DEA takes forward recommendations in the *Digital Britain Report* for a new system of video games classification incorporating the newly enhanced Pan-European Game Information system.

COMMENT

The DEA was enacted in the "wash-up" procedure which fast-tracks outstanding legislation between the announcement of an election and the dissolution of Parliament. As both the Liberal Democrats and Conservatives were critical of the Digital Economy Bill during its progress through Parliament, it remains to be seen whether the DEA will come into effect in its current form.

DOMAIN NAMES

New Powers to Regulate Domain Name Registries

The Digital Economy Act 2010 (DEA) introduces new powers in relation to domain name registries to prevent potential abuses in light of the liberalisation by ICANN (the Internet Corporation for Assigned Names and Numbers) of the generic top-level domain (gTLD) market.

BACKGROUND

The *Digital Britain Report* noted that ICANN, the body responsible for allocating generic- and country-code top level domains, had introduced a new policy in 2008 proposing the expansion of the gTLD space to a virtually unlimited number of gTLDs. Whilst most of these are likely to be geographically neutral, like .sport, it is possible that an organisation could

apply successfully to operate a geographical gTLD such as .britain. Currently, the only specifically UK-related domain registry is Nominet, which operates the .uk register.

The risk that ICANN's gTLD expansion policy could give rise to additional registries whose names identified them with the United Kingdom has led to a Government decision to reserve powers in any forthcoming legislation to regulate registries should this prove necessary.

THE NEW POWERS

Section 19 DEA introduces a power for the Secretary of State to notify a registry of a "serious failure" in its practices. "Relevant failures" are defined in Section 19(3) as the occurrence of

- a) The registry, any of its registrars or end users engaging in prescribed practices that are unfair or involve the misuse of internet domain names, or
- b) The arrangements made by the registry for dealing with complaints in connection with domain names not complying with prescribed requirements.

A relevant failure is deemed serious if it affects adversely the reputation or availability of communications networks or services, or the interests of consumers or members of the public in the United Kingdom, or has the potential to do so. Provision is made for regulations to set out the "prescribed requirements" referred to in Subsection (b) above.

Section 20 affords the Secretary of State the power to appoint a manager over a failing registry which has not taken appropriate steps to remedy its failures within a prescribed period (which has not, as yet, been prescribed). Section 21 sets out the functions of a manager appointed under Section 20.

COMMENT

The Government has itself acknowledged that, as long as Nominet remains the only UK registry, the current system of self-regulation works. Sections 19-21 of the DEA now provide a mechanism to intervene should self-regulation prove ineffective after the liberalisation of the gTLD market.

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