

Legal update

Commerce and technology

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Issue Number 57 May 2009

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Competition law affects many areas of business activity, in particular commercial relationships with competitors, suppliers and distributors. This article looks at some common competition issues in commercial relationships and highlights the importance of complying with competition law.

What is competition law?

Competition law (sometimes referred to as 'antitrust') is all about ensuring that there is sufficient competition in the market, so that prices stay low and companies stay efficient and continue to innovate. Within the UK there are two overlapping sets of competition rules: one domestic and one deriving from EU law. The EU competition rules apply throughout the European Union and in addition to promoting competition they contribute to the maintenance of a single market for goods and services.

How might competition law affect my business?

Both day to day business and strategic activities may be affected by competition law, which:

- prohibits a number of types of restrictions in agreements;
- prohibits companies with a very strong market position from abusing that position;
- requires certain types of business transaction (mergers, acquisitions and some joint ventures) to be cleared by the competition authorities before they are put into effect; and
- forbids the government from giving favourable economic treatment to one company or industry to the exclusion of others (ie state aid).

The prohibition on anti-competitive agreements

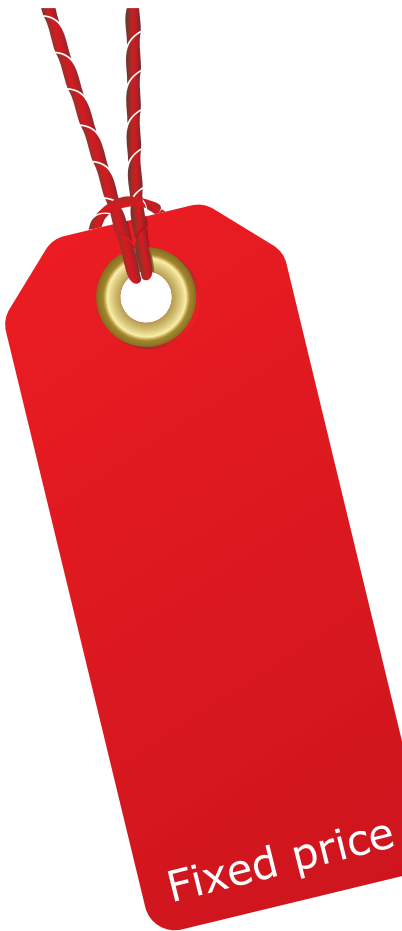
An agreement does not have to be in writing for competition law to apply – it may simply involve a 'gentlemen's agreement'. Decisions of trade associations may also be caught, as may any sort of arrangement where there is a 'meeting of minds' between the parties.

A range of different types of restrictions that may be found in a commercial agreement may fall foul of competition law. The agreement does not have to be between competitors for competition law to apply – in fact, competition law can apply equally to agreements between businesses at different levels of the supply chain. Any of the following may require close examination to check whether they are permissible: collaboration between competitors; exchange or pooling of sensitive information; controls on pricing; provisions granting territorial protection; exclusive supply or distribution arrangements; non-compete obligations; and selective distribution.

However, if a commercial agreement does contain such restrictions, all is not lost. In certain circumstances the agreement or the restriction may nonetheless be permitted under competition law, as it may be recognised that the benefits arising from the restriction outweigh the disadvantages of the reduction in competition.

Common restrictions in commercial agreements

Three of the most common restrictions in commercial agreements are price controls, territorial restrictions and non-compete obligations.



Control of prices

Any agreement between competitors which fixes the price at which either or both/all of them sell their goods/services is the worst type of restriction of competition (known as a 'hard core' restriction). It is exceptionally rare for any such restriction to be permitted and usually this sort of restriction will attract the harshest penalties. Price fixing between competitors is the typical form of cartel activity and competition authorities across the world have as a priority the investigation and punishment of cartels.

When it comes to agreements between non-competitors, controls on pricing may not necessarily be viewed in such a negative light. In distribution agreements, the supplier will often seek to have some element of control over the prices charged by the distributor. However, any attempt by the supplier directly or indirectly to fix the prices at which the distributor resells the goods will not be permissible. So setting a recommended retail price is generally permitted but only if that recommendation is not, in reality, going to be enforced as a fixed retail price. The supplier may generally also impose a maximum retail price, but not a minimum retail price.

Territorial restrictions

An agreement between competitors requiring each to stay out of the other's market (or to refrain from selling to the other's customers) is another type of hard core restriction. As with price fixing arrangements between competitors, this sort of restriction will usually attract severe penalties and will hardly ever be permissible.

In the context of agreements between parties operating at different levels of the supply chain (so called 'vertical' agreements), certain forms of territorial restriction may, however, be allowed. This is because certain restrictions mean that the parties' investments in the arrangements will be protected and so the restrictions actually encourage the parties to enter into the agreement. Although complete territorial restrictions, such as export bans, are not permitted, a supplier may be permitted to set up an exclusive distribution system. This involves the supplier allocating the exclusive right to sell into a particular territory to one distributor whilst reserving to himself or other exclusive distributors the right to sell into other territories.

If the supplier's market share is relatively modest (less than 30%), then a distribution system with territorial restrictions will be permissible, provided that all distributors within the system are permitted to make passive sales into the territories reserved to other distributors. Passive sales are those made in response to a customer approaching the distributor without that approach having been solicited. In contrast, it is possible to restrict active sales. The use of the internet to advertise or sell products is generally considered to be a form of passive sale. Active sales are where the distributor actively seeks custom, for instance through advertising or directly contacting customers.

If the market share threshold is exceeded, it may still be possible to include some form of territorial restrictions; however this will require a detailed assessment of the proposed restriction to see if it gives rise to competition law concerns.

Non-compete obligations

In the context of a vertical agreement, a 'non-compete obligation' is one that:

- obliges one party not to manufacture, purchase, sell or resell goods or services which compete with the goods or services that are the subject of the agreement; or
- obliges a buyer to purchase from the supplier more than 80% of the buyer's total purchases of the relevant goods or services.

Non-compete obligations are often considered to be crucial in many commercial arrangements but as their name suggests, such obligations may well be caught by competition law.

The competition authorities recognise that these obligations may encourage businesses to enter into commercial arrangements because they give the parties some degree of reassurance that the business can be allowed to grow. This is balanced against the

for anti-competitive behaviour. In 2007, the OFT fined British Airways £121.5 million following the fuel surcharge cartel.

Key individuals involved in hardcore cartels may face criminal prosecution, with 2008 seeing the first criminal convictions in the UK when three individuals involved in the international marine hoses cartel were each imprisoned for terms of up to 30 months. Furthermore, the trial is expected next year of four current and former executives and managers of British Airways charged in respect of the fuel surcharge cartel.

An equally serious sanction is the fact that an anti-competitive agreement can be declared void and unenforceable. This may have far-reaching consequences for a company's commercial relationships with, for example, its suppliers and/or distributors.

There is also a growing number of private actions for damages brought by claimants alleging that they have suffered loss as a result of anti-competitive behaviour. Defending private damages actions can be costly, not only as a result of legal and other costs but also in terms of the potential damages that can be awarded. For example, the recent case brought against JJB Sports in respect of a price-fixing cartel involving the sale of football shirts saw the retailer agree to pay £20 to every purchaser of the relevant shirts. Competition authorities are keen to see an increase in third party competition litigation and are investigating ways to make it easier for claimants to launch such actions.

How can I protect my business?

A key option for those seeking to protect their business against any claim that the business has been involved in a breach of competition law is to consider implementing a competition compliance programme. A robust programme with regular competition audits will help minimise the possibility of breaching competition law and limit the duration of any breach that does occur. Furthermore, if a breach of competition law is identified, the company will be in a position to manage its potential exposure, including the possibility of approaching competition authorities to seek immunity or leniency from sanctions. If a compliance programme indicates that a company has made a genuine attempt to comply with competition law, this may be a mitigating argument to put in order to apply for a reduction in any fine that may be imposed. A compliance programme may also highlight potential breaches of competition law by third parties which may enable a company to launch a claim for damages if loss has been suffered.

restriction on competition. Provided that the market share of the party imposing the restriction is modest (ie less than 30%), and provided that the restriction does not last for more than five years, it will generally be permitted under competition law. If, however, such an obligation is to last for an indefinite duration or for more than five years or is to be automatically renewed for an indefinite period, it will raise competition law concerns. The same will be true if the non-compete obligation lasts after the agreement to which it relates has terminated. Post-termination non-compete restrictions are only permitted in very limited circumstances.

Consequences of breaching competition law

The consequences of breaching competition law can be serious and far-reaching. They may include:

- fines of up to 10% of a business's worldwide turnover;
- criminal prosecution of individuals involved in hard core breaches of competition law;
- disqualification of individuals from acting as a director;
- unenforceability of the anti-competitive agreement; and
- third parties who have suffered loss as a result of the breach can sue for damages.

Recently, the level of fines imposed for breaching competition law has increased. In November 2008, the European Commission imposed its largest ever cartel fine of €1.384 billion on four companies in relation to the car glass cartel. In total, seven cartel decisions were issued by the Commission in 2008, with total fines of over €2.2 billion. National competition authorities also issue large fines



Heads of Terms

Key issues to consider



Your commercial negotiations have reached a certain stage. You now wish to record the main points and the basis on which you agree to proceed with the transaction in the form of Heads of Terms (also known as heads of agreement, memoranda of understanding, term sheets or letters of intent). The Heads will only deal with commercial, and not legal issues, and therefore you don't need to involve the lawyers ... right?

Unfortunately not. Regrettably, it is relatively common for parties to enter into Heads of Terms without professional advice. Care should be taken when adopting this approach – a document recording the principal terms of a commercial transaction may create a legally binding contract despite your understanding that you had only signed a non-binding document. This article sets out some key issues to consider before signing off on any Heads of Terms.

Advantages of Heads of Terms

Many parties are of the view that the time involved in producing Heads of Terms could be more usefully employed in drafting and negotiating the commercial agreement. So why bother? It is true that if negotiation of the Heads stalls over points of unnecessary detail, this will delay preparation of the final contract and increase the length and cost of the negotiations. However where time spent negotiating the Heads is confined to discussing the commercial deal in principle, the Heads can become a useful commercial tool and may well prove to save time and costs in the long run. For instance:

- Drawing up the document will serve to focus the minds of the parties and establish whether there is a sufficient measure of agreement to make the whole process worthwhile. Should the Heads highlight a major issue at an early stage, this would prevent you wasting time and money on further negotiations if that issue cannot be resolved.
- By putting the basic terms into written form at an early stage, the parties have made clear their general intentions and entered into a 'moral' commitment to observe the terms agreed. It is certainly harder for the one party to back out on earlier commitments where these have been recorded in writing. Again the Heads provide you with comfort that the whole exercise will not prove to be a waste of time and expense.
- Heads of Terms often contain clauses that are intended to be legally binding. These are important at the negotiating stage in order to provide comfort to a party who is in a sensitive commercial position. For example the Heads may contain confidentiality obligations, or may specify an exclusivity period during which the parties may not negotiate with third parties. The party relying on such provisions will want to ensure that these provisions are legally enforceable, and the Heads will allow this party to proceed with more confidence with these legally binding provisions in place.
- Draft Heads of Terms can also provide a useful tool in instructing external advisers. Given that the Heads should set out the key terms of the proposed deal, advisers can be quickly brought up to speed on the transaction and perhaps highlight issues that have not previously been considered.
- Heads of Terms can also provide the basis for submissions for tax clearance applications or guidance from competition authorities, thereby saving time in the process of finalising a deal later down the line.

Heads of Terms can therefore provide a very useful stepping stone on the way to completing your formal agreement. It is important to keep in mind however that, in general, the Heads should only relate to the important deal points. Discussions over the finer detail should be reserved for later on in the negotiations.

Legally Binding?

One of the main considerations to think about before drawing up your Heads is – are the terms going to be legally binding?

In the majority of cases, the parties will not want the Heads to be legally binding. For example, in the case of an acquisition, the signing of the Heads will usually precede the formal due diligence on the target, which

may prompt the proposed buyer to withdraw or renegotiate the transaction. The buyer will not want to be fully committed at this stage. Unfortunately normal practice is therefore to mark the document 'subject to contract'. Beware! This may lead to problems down the line.

Whilst Heads of Terms are generally not intended to be legally binding, they can create a legally binding agreement even when this is not the parties' intention. Whether your particular Heads are legally binding will depend on all the circumstances of the transaction, including the conduct of both parties. However by merely relying on the words 'subject to contract' you may be treading a dangerous path. Rather than simply including the words 'subject to contract', it is preferable for your Heads to spell out the parties' intention. This can be done by including further wording such as "these heads of terms are not intended to be legally binding between the parties except as specifically set out in this letter." You should also ensure that the language used in your Heads is consistent throughout in expressing that the document is not legally binding.

Particular care must be taken in international transactions. In many European jurisdictions there is a duty to negotiate in good faith and parties can be liable if they withdraw from the negotiations or fail to negotiate in good faith after signing Heads. Local law advice should be taken on international transactions and the Heads drafted accordingly.

Clauses to consider making legally binding

To ensure that you maximise the commercial benefits of your Heads of Terms, you should give consideration to those clauses which are intended to have legal effect and then identify these provisions clearly. For example, you may want to include legally binding confidentiality provisions, exclusivity/lock-out provisions, non-solicitation of employees or customers provisions or possibly even provision for recovery of 'failure' costs. These terms must be clearly identified.

Particular care should be taken in relation to exclusivity provisions. On an acquisition, a buyer may be reluctant to spend the time and money necessary to undertake a full investigation into the target's affairs unless he is granted an exclusive right for a certain period. Such a clause is enforceable provided that it is sufficiently certain. This means that your clause must be drafted as a 'lock out' provision – by excluding either one or both of the parties from seeking or entertaining approaches from third parties for a fixed and

certain period. An agreement not to negotiate with third parties for a 'reasonable period' will not be enforceable. Furthermore your clause must not be expressed as a 'lock-in' provision (where you expressly agree to negotiate with each other). This is unenforceable because it is an 'agreement to agree' and therefore lacks certainty.

An agreement not to negotiate with a third party must also be supported by consideration. Where the exclusivity provision is one of the binding provisions of the Heads and these Heads impose confidentiality or other obligations on the buyer, the issue of consideration should normally be covered. However if in doubt, the prospective buyer could pay a nominal sum for the exclusivity agreement or the Heads could refer to the consideration given by the buyer in the form of costs incurred and time spent on due diligence and negotiations.

Summary

Heads of Terms have a number of advantages and can be a useful commercial tool. However they should always be drafted very carefully and in particular the Heads must make clear which provisions are intended to be legally binding.

Whilst it is tempting to sign up to the key terms of the transactions before you hand it over to the lawyers to start the detailed drafting, it may be advisable to have a lawyer review before signing off on any Heads.





Environmental policies and procedures in both the public and private sectors are now ubiquitous. This article examines the motivations and incentives of those public authorities who have embraced the current climate for energy efficiency policies and more generally “green ethics”.

Reasons for ‘going green’

The Kyoto Protocol has prescribed that the UK will reduce its carbon dioxide and greenhouse gas emissions by 12.5%. Furthermore, the UK is imposing on itself legally binding national targets to reduce carbon dioxide emissions by 26-32% by 2020 and 60% by 2050. Central to meeting these targets is greater energy efficiency in buildings, as buildings are responsible for approximately 50% of the UK’s total carbon dioxide emissions. An increase in the use of renewable energy will also be central in facilitating the above targets being met.

Owing to the dwindling stocks of oil and gas in the North Sea, the UK has become increasingly reliant on imported fuels from Russia, Central Asia, the Middle East and Africa. In turning to renewable energy, the UK can reduce its reliance on imported fuels. Further, the move towards use of renewable energy has been hailed by Gordon Brown as a “fourth technological revolution”, and is clearly regarded as a hotbed for investment opportunities. Indeed, government estimates suggest that:

- industries such as renewable energy, waste management and water treatment will be worth US\$700 billion globally by 2010;
- by 2050, the annual value of the global low carbon energy sector could be US\$3 trillion; and
- the UK environmental sector is currently worth £25 billion and employs 400,000 people with it predicted that this could double within 20 years.

These monetary projections have been key in motivating green policies in both the public and private sectors.

EU Member States frequently implement and apply EC environmental law because they are aware that the European Commission will threaten them with action for failure to fulfil their obligations under the EC Treaty if they fail to do so, rather than because they have a burning desire to implement policies which will protect the environment. In addition, the Environment Commission aims to facilitate green public procurement and other incentives for greener products. It has set a target for half of all public procurement to be ‘green’ by 2010.

Schemes which reward public authorities for their green initiatives

There are many schemes which incentivise public authorities to adopt green policies. One such example is the Beacon Scheme which was set up to promulgate best practice across local government. Beacon status is granted to those authorities that demonstrate “a clear vision, excellent services and a willingness to innovate within a specific theme”.

The Environment Commission has set a target for half of all public procurement to be 'green' by 2010.



Almost every local authority in England has applied for Beacon status in at least one of the seven years that the scheme has been in operation. The scheme provides the chance for public authorities to gain national recognition for the innovation shown by their teams. Furthermore, Beacon winners have access to a range of benefits and opportunities as follows:

- recognition for the authority within the community;
- free 360 degree health check for the authority; and
- access to additional funding.

Furthermore, it has been observed that local authorities are uniquely placed to provide vision and leadership to local communities, raise awareness and help change behaviours. Without taking action on the issue of climate change, authorities risk severe financial, social and environmental damage to their region.

The Nottingham Declaration

The Nottingham Declaration was launched in October 2000 and has been signed by more than 300 English Councils. The Declaration recognises the central role of local authorities in leading society's response to the challenge of climate change. In signing the Declaration, Councils are pledging to systematically address the causes of climate change and to prepare their community for its impacts.

As well as reassuring residents of the commitment to combating climate change, one of the chief incentives for local authorities to ascribe to the Declaration is the fact that a range of support and resources are available for those local authorities who adopt climate change and energy initiatives. By way of example, Salix is an independent company who are funded by the Carbon Trust to work with the public sector to reduce carbon emissions through investment in energy efficiency measures and technologies.

Further, local authorities have cited many examples of significant savings that have resulted from sustainable energy measures that have been introduced. For example, Kent City Council have estimated that they are saving £160,000 annually after receiving support for their energy saving measures.



Pressure to publicise

Councils and the private sector alike are coming under increasing pressure to report on the extent of their greenhouse gas emissions and to make public their policies as to what they are doing to reduce their carbon footprints. Previously climate change policies may have been implemented as a way of differentiating local authorities and companies from their counterparts. However, in today's green focused culture, evidence of such policies are a prerequisite and the absence of proactive policies not only carries the risk of legally enforceable penalties, but moral condemnation and damage to reputation as well. Given the importance that corporate social responsibility has gained in recent years, this threat to reputation is no small concern and is undeniably a consideration at the forefront of both the public and private sectors' minds.

Interaction between private and public sector

In addition to the interaction discussed above between the public and private sectors in respect of funding initiatives, the two sectors are imminently due to be participants in a compulsory emissions trading scheme named the Carbon Reduction Commitment (CRC). This scheme will be an obligatory emissions trading scheme for all non-energy intensive businesses and public sector organisations in the UK who are believed to account for approximately 10% of the UK's total carbon dioxide emissions. It is anticipated that the scheme will come into force in 2010.

The scheme will apply to all businesses and other organisations in the UK whose total half hourly metered electricity consumption exceeded 6,000 MWh during 2008. The Government will stipulate a cap or 'allowance' on the total amount of carbon dioxide those businesses governed by the scheme can emit in one year. The Government will then auction those allowances. At the end of the year those participating businesses and organisations will have to show that they have a sufficient number of allowances to cover the amount of carbon dioxide they have emitted. If they are found to have emitted more than the number of allowances they hold, they will have to buy more allowances from other participants and likewise, if they have emitted less than the number of allowances they hold, they can sell their surplus allowances to other participants in the CRC.

The scheme is currently being consulted on and the public and private sectors have both been active in shaping the CRC.

Comparative advertising and look-alikes

The smell of success for brand owners?

Following our previous briefings on comparative advertising (see SmartLaw edition of April 2008 and IP notes for July 2008), the Advocate General (whose opinion is non-binding but intended as guidance for the European Court of Justice) has recently thrown a much needed lifeline to brand owners following his decision in the 'smell-alike and look-alike' perfume case of *L'Oréal v Bellure*.

What is all the fuss about comparative advertising?

The crux of the issue is whether a brand owner can use its registered trade mark to stop its competitor(s) making (unfavourable) comparisons between its goods or services and those of the advertiser. The decision of European Court of Justice (ECJ) last year in *O2 v 3G* held that there had to be confusion in order for a brand owner to have an actionable claim for trade mark infringement. Absent confusion, the law of trade marks did not apply to comparative advertisements. The effect of the ECJ's ruling when taken together with the Court of Appeal's earlier comments meant trade mark infringement actions for comparative advertising were dead in the water. Brand owners would have to look to the Misleading and Comparative Advertising Directive instead, which provides a far less rigorous mechanism of enforcement and redress.

In the recent case of *L'Oréal v Bellure*, questions concerning the interpretation of the Trade Marks Directive and the Misleading and Comparative Advertising Directive were referred to the European Court of Justice. These questions related to the use by an advertiser of a brand owner's trade mark to identify goods which are those of the brand owner rather than the advertiser.

The Advocate General's opinion in *L'Oréal v Bellure* has given a boost to brand owners as it has opened the door to a trade mark infringement claim for comparative advertising in respect of those trade marks that enjoy a particular reputation.

The background to the dispute

L'Oréal is the owner of various trade marks relating to luxury perfumes, including the words *Tresor*, *Miracle*, *Anaïs-Anaïs* and *Noa Noa* together with the design of the *Tresor* perfume bottle and *Miracle* perfume box.

Bellure marketed and sold cheap perfumes throughout Europe that imitated the visual appearance of *L'Oréal* perfumes, including *Tresor*, *Miracle*, *Anaïs-Anaïs* and *Noa Noa*, but were sold at a fraction of the cost of *L'Oréal*'s perfumes (often less than £4). In particular, *Bellure* made use of comparison lists that it supplied to retailers comparing its perfumes which "smelt like" the corresponding *L'Oréal* perfume. Furthermore, several perfumes marketed by *Bellure* were sold in bottles and boxes that were similar to the packaging and shape of *L'Oréal*'s *Tresor*, *Miracle*, *Anaïs-Anaïs* and *Noa* perfumes.

The parties' products were not in direct competition with each other as they were in different price and market sectors. However, it was acknowledged in the proceedings that there was a competitive relationship at an intermediate level in the distribution chain (for example with wholesalers).

“for those trade marks that have a particular reputation, if a third party cannot show ‘due cause’ for using another person's registered trade mark, then it is taking unfair advantage of that mark”

The decision of the UK Courts

L'Oréal issued trade mark infringement proceedings in the UK. L'Oréal claimed that Bellure had made use of an identical trade mark in respect of L'Oréal's perfume names that appeared on Bellure's comparison lists. L'Oréal also claimed that, by virtue of Bellure's imitation of the names, bottles and boxes of L'Oréal's perfumes, Bellure had taken unfair advantage of L'Oréal's various trade marks.

The High Court held that Bellure had infringed L'Oréal's trade marks in respect of the perfume names that appeared on its comparison lists and that there had also been trade mark infringement in respect Bellure's look-a-like products that imitated L'Oréal's registrations for the design of its Tresor box and the appearance of its Miracle bottle.

Bellure appealed. When the case came before the Court of Appeal, the Court sought clarification from the ECJ on a number of issues. The questions posed by the Court of Appeal are summarised below together with the Advocate General's responses.

The Opinion of the Advocate General

In an Opinion that is in places confusing, the Advocate General has ruled (amongst other things) that, for those trade marks that have particular reputation, if a third party cannot show ‘due cause’ for using another person's registered trade mark, then it is taking unfair advantage of that mark and the trade mark owner can stop the use of its trade mark.

The decision is of application to all trade mark owners, as it goes to the heart of whether a brand owner can prevent another person ‘free-riding’ off its mark, even if the brand owner suffers no loss from the use of its mark.

The questions referred by the UK Court of Appeal and the Advocate General's responses are as follows.

1. *In relation to the use of identical/similar marks for identical/similar goods and services, can there be trade mark infringement if there is no confusion caused by the comparative advertisement or if the essential function of the trade mark is unaffected?*

The short answer was “no”. The Advocate General said that there could only be infringement of an identical mark for identical goods and services where the use of the offending mark affected or was liable to affect the trade mark's essential function as a guarantee of origin, or any of the mark's other functions. Unfortunately, the Advocate General did not say what these other functions might be.

The Advocate General went on to say that there would be no infringement even if the use of the registered trade mark played a significant role in the promotion of the advertiser's goods, however, such use could be prevented under the Trade Marks Directive and the Misleading and Comparative Advertising Directive (see below).





2. Can there be unfair advantage (within the meaning of the Trade Mark Directive) where a trader uses a sign similar to a registered trade mark which has a reputation, and that sign is not confusingly similar to the trade mark, in such a way that:

(a) the essential function of the trade mark in guaranteeing origin is not impaired;

(b) there is no tarnishing or blurring of the registered trade mark or its reputation or any risk of either of these;

(c) the trade mark owner's sales are not impaired; and

(d) the trade mark owner is not deprived of any of the reward for promotion, maintenance or enhancement of his trade mark;

(e) but the trader gets a commercial advantage from the use of his sign by reason of its similarity to the registered mark

The short answer was “maybe”. The notion of unfair advantage is set out in the Trade Marks Directive, which provides that a trade mark is infringed where an identical or similar mark is used for similar goods or services where “the use of that sign without due cause takes unfair advantage of ... the distinctive character or repute of the trade mark”.

The Advocate General said the key to determining unfair advantage is ascertaining what benefit the advertiser has gained through using the brand owner's registered trade mark, rather than the harm caused to the well-known mark. In order for there to be an advantage, there must be some sort of

‘boost’ given to the advertiser by virtue of its use of the registered trade mark. However, it would still be necessary to determine whether the advantage was unfair.

The absence of any of the factors listed at (a) – (d) above would not prevent such a finding. Crucially, the Advocate General said that the use of a brand owner's trade mark could still be unfair even if it had no effect on sales or on the trade mark's essential function of guaranteeing origin if the advertiser could not establish ‘due cause’ in respect of its use of the trade mark. Unfortunately, the Advocate General did not provide any guidance or other clarity on what constituted ‘due cause’ but rather unsatisfactorily said this was a matter to be determined by the national courts.

3. Under the Misleading and Comparative Advertising Directive, what is the meaning of unfair advantage? Does the use of a trade mark in comparison lists constitute taking unfair advantage

The Advocate General recognised that any kind of advertisement making a comparison with a well-known product entailed a significant element of ‘free-riding’. However, the use of a trade mark in a comparison list would not necessarily fall foul of the Misleading and Comparative Advertising Directive unless the comparison was unfair.



The concept of unfair advantage did not lend itself to a general definition but had to be applied in a flexible manner on a case by case basis and it was for the national courts to determine whether the advantage gained by the advertiser was unfair in light of the circumstances of the case.

4. *Under the Misleading and Comparative Advertising Directive, what is meant by “presenting goods or services as imitations or replicas” and does this expression cover circumstances where, without causing any confusion or deception, a party truthfully says his product has a major characteristic like that of a well-known product which happens to be protected as a trade mark*

The Advocate General said that the Misleading and Comparative Advertising Directive does not prohibit an advertiser saying that a product is equivalent to, or has the characteristics of a well known product. However, if the advertiser uses words such as ‘type’ or ‘style’ after the registered trade mark, then this is likely to fall foul of the Misleading and Comparative Advertising Directive.

What this decision means for brand owners

Assuming that the ECJ follows the Advocate General’s opinion (which is not always the case), a brand owner can still bring a claim for trade mark infringement in respect of comparative advertising if the advert causes confusion or affects the essential function of the trade mark as a guarantee of origin. However, in practice this will be unlikely given the context of most comparative advertisements.

The door has, however, been left firmly open for trade mark infringement claims in respect of those trade mark owners who can establish that their trade marks enjoy a particular reputation and the advertisers use of its mark is unfair, even if no loss has been suffered. If the advertiser cannot show that it has ‘due cause’ for using the trade mark then a prima facie case is established. Of course, crucial to this is what is meant by ‘due cause’ and how this will be interpreted by the ECJ and the national courts.

The ECJ’s decision is expected later this year so please watch out for future editions of SmartLaw and our IP briefings as to how this area of law continues to develop.



News and views

Digital Britain interim report

On 29 January 2009 the Government published an interim report on Digital Britain. This followed the announcement last year by BERR and the DCMS of the development of a Digital Britain action plan to focus on the future of the digital and communications industries and the appointment of a panel of experts to assist in the preparation of the Digital Britain action plan report.

The report outlines the Government's plan to secure Britain's place at the forefront of the global digital economy, with the following five objectives for 2012:

- upgrading and modernising the UK's digital networks so that Britain has an infrastructure that enables it to remain globally competitive in the digital world;
- a dynamic investment climate for UK digital content, applications and services, that makes the UK an attractive place for both domestic and inward investment in its digital economy;
- UK content for UK users: content of quality and scale that serves the interests, experiences and needs of all UK citizens, in particular impartial news, comment and analysis;
- fairness and access for all: universal availability coupled with the skills and digital literacy to enable near-universal participation in the digital economy and digital society; and
- developing the infrastructure, skills and take-up to enable the widespread online delivery of public services and business interface with Government.

The report also contains 22 recommendations based on the objectives, some of which will require legislative reform, some which are in the form of specific recommendations and others will require further analysis.

Anyone interested in joining the discussion can register their interest at: digitalbritain@berr.gsi.gov.uk or join the Digital Britain discussion site at www.digitalbritainforum.org.uk. The final report will be published in early summer 2009.

ECHR rules on online libel

The European Court of Human Rights (ECHR) on 10 March 2009 confirmed the UK's 'internet publication' rule in relation to online libel. This rule provides that a fresh cause of action for defamation arises each time a defamatory statement is published and on the internet this amounts to each time the comments are accessed on a website, and not just when the comments were first posted. This is in contrast to the single publication doctrine which applies in the USA.

The case relates to libel proceedings issued against The Times Newspapers Limited in relation to the continued publication of certain articles on its website. The claimant was successful in the High Court and The Times appealed to the Court of Appeal arguing that the internet publication rule is a breach of Article 10 of the European Convention of Human Rights (freedom of expression). The Times argued that the publishers of internet archives would be subject to continued liability for re-publication of any defamatory material and that, in order for Article 10 to be maintained, the UK should adopt the single publication rule.

The ECHR agreed with the UK courts that the continued publication by The Times of the articles did indeed libel the claimant and this was a justified and proportionate restriction on The Times' right to freedom of expression. The ECHR held that the requirement to publish a qualification in relation to articles held on internet archives which are the subject of a libel action was not a disproportionate interference with the right to freedom of expression. Newspapers may take some comfort from the fact that the ECHR also stressed that libel proceedings commenced after a significant lapse of time may give rise to a disproportionate interference with press freedom under Article 10.

Employee inventor compensation

The landmark High Court decision in *Kelly & Chiu v GE Healthcare Limited*, often referred to as the 'Amersham case', has awarded "employee compensation" to two former employees in relation to an invention which resulted in outstanding benefit to their employer. The case is the first of its kind in which an employee has been successfully awarded compensation.

The two former employees were awarded £1.5 million between them after bringing a claim under section 40 of the Patents Act 1977 (as amended in 2005), which entitles employees who are named as inventors to compensation if the invention (not just the patent) has been of "outstanding benefit" to the employer. Although this outcome may cause some alarm to employers, the High Court stressed that the "outstanding benefit" test was not easy to pass, and that the benefits of these particular patents "went far beyond anything which one could normally expect to arise from the sort of work the employees were doing". The Court also only

awarded the claimants 3% of the financial benefit attained by the company which was significantly less than the sums that they asserted were due to them.

The decision should prompt employers to consider the contractual arrangements with inventors and whether a new scheme of arrangement should be introduced concerning employees' rewards where an invention is of outstanding benefit to the employer.

Online behavioural advertising principles

The Internet Advertising Bureau, along with its members, has developed a set of self-regulatory Good Practice Principles for online behavioural advertising which will come into force on 4th September 2009. These principles will apply to businesses that collect and use data for behavioural advertising and are based upon offering users notice about data collection, choice as to whether to participate and education about behavioural advertising and its benefits. There are currently ten signatories to the principles so far, including AOL, Google, Microsoft Advertising, Phorm and Yahoo! SARL.

Barclays Bank and unfair consumer terms

Following the Financial Services Authority (FSA)'s review of the terms and conditions of Barclays fixed rate savings bond, Barclays has undertaken not to use certain terms which the FSA deems to be unfair. Under the Unfair Terms in Consumer Contracts Regulations 1999 (the Regulations) the FSA is able to challenge firms which it believes are using unfair terms and it must notify the Office of Fair Trading of the undertakings that it subsequently receives in respect of such terms.

The specific terms which were highlighted by the FSA related to Barclays' ability to unilaterally vary the terms of the agreement "for any good reason" and also the fact that it was only obliged to "normally" give 30 days' notice of any changes which are to the consumer's disadvantage. The FSA was concerned that these provisions gave Barclays excessive discretion to vary contract terms and that ambiguous language was used in relation to the potential reasons for such changes and this was inconsistent with the Regulations.

Diary dates

1 May 2009

From 1 May 2009, fees for consumer credit licences will rise. The fee increase follows changes to the OFT's powers from April 2008, which allow it greater ability to focus on businesses engaged in credit activities that pose a high risk to consumers. From 1 May 2009, there will be an increase in the fees for applications for or renewals of a standard credit licence for a five-year period. For sole traders this increase is £20 per annum and for all other applicants it is £49 per annum.

1 June 2009

The UK Intellectual Property Office (IPO) issued a consultation on fees and services on 9 March 2009. The IPO hopes that the changes will save businesses over £700,000 per annum. The review has been prompted by a decrease in demand for patent and trademark applications in the UK and the recent announcement that a 40% fee reduction has been agreed for Community Trade Marks which will take effect from 1 May 2009. The consultation closes on 1 June 2009 and further details can be found at www.ipo.gov.uk.

Forthcoming LG Events

The 2009 SmartLaw Seminar Series

19 May 2009 – Competition law issues in commercial contracts

15 September 2009 – Securing contracts

4 December 2009 – Commercial Law Update

Other LG events which may be of interest:

8 June 2009

LG is hosting its annual local authority lawyers seminar jointly with 2-3 Grays Inn Square chambers.

15 June 2009

LG is hosting a seminar, jointly with Knight Frank, which will deal with sweating local authority assets and regeneration. The shadow planning minister will be in attendance.

22 June 2009

LG is hosting a seminar jointly with PMP Consultants for local authority leisure officers which will focus on opportunities in the sports and leisure industries.

23 June 2009

The second More4Counsel seminar, What's hot in IP, will be held on 23 June 2009, 8.45 am – 10 am (as part of a series of More4Counsel seminars). LG's More4Counsel seminar programme is developed specifically for in-house lawyers. Aimed at all levels of experience, the seminars will cover a wide range of topical issues from a practical and commercial perspective. This second seminar will address the top 5 issues in IP.

8 July 2009

More4Counsel seminar
Carbon Reduction Commitment Challenges – legal, financial and reputational.

16 September 2009

More4Counsel seminar
Managing your competition law concerns.

For further information relating to these or any other LG seminars, conferences and publications please see our website or contact info@lg-legal.com.

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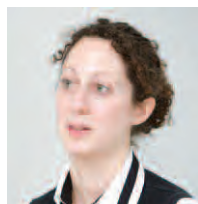
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