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PATENTS

The "Patent Box": Preferential Tax on Profits From Patents

On 10 June 2011, the UK Government launched a Consultation on the "Patent Box", a preferential corporation tax regime of 10 per cent on profits arising from patents. According to HM Treasury, the consultation forms part of the Government's plans to make the United Kingdom's tax system the most competitive in the G20.

BACKGROUND

In November 2010, the UK Government published a Corporate Tax reform consultation that included a wide-ranging review of taxation of intellectual property (IP). The Patent Box consultation builds on that initial review and provides a detailed explanation of how the Government proposes to implement the Patent Box.

The idea is that from April 2013, the Patent Box will apply a 10 per cent corporation tax rate to profits attributed to patents. The Government is focusing on patents because they have a particularly strong link to high-tech research and development and manufacturing activity.

Special regimes for patent income are available in some other countries and there have been concerns that the UK system has become less competitive, leading to pressure to locate elsewhere.

THE CONSULTATION

The proposals reflect the Government's dual aims for the Patent Box: to cover a wide range of patent income and to minimise where possible uncertainty and risk of dispute.

All businesses within the scope of UK corporation tax will potentially be eligible to elect for the Patent Box regime to apply to their trading profits. In order to claim the Patent Box tax deduction, the business must actively hold a qualifying patent or other qualifying IP and must receive income related to that patent or IP.

The proposed model for calculating patent profits is based on the fact that valuable patents and other forms of IP will produce additional returns over companies without valuable IP. The amount of this extra profit, known as the "residual profit", is a measure of the profit created by the IP rather than though routine business activities.

The consultation questions cover five main areas:

1) The patents and associated IP types that will be eligible for the Patent Box. For example, should the Patent Box cover patents granted by any other EU national patent office, and do the current ownership laws adequately permit exclusive licensees of patents to qualify for the Patent Box?

2) The types of income that will be eligible. For example, the Government is seeking views on how the arm's-length profit attributable to patents used in processes or to provide services should be calculated.

3) How the profit attributable to patents will be calculated. For example, should there be special rules for any one-off items of income or expenditure? Further, the Government is asking for businesses' views as to how to separate effectively patent profits from those arising from other forms of IP and on how Patent Box losses should be dealt with.

4) The computational methodology and interaction with group loss relief, chargeable gains, double tax relief and transfer pricing regimes, and potential anti-avoidance rules. For example, is using a computational tax deduction method the right approach and what are businesses' views on the interaction with double tax relief rules?

5) The commencement date of the regime. The Government is asking for views on its proposal for a phase-in approach rather than a cut-off date approach as initially proposed in the November 2010 consultation.

COMMENT

The November 2010 document outlined a number of high level principles to guide the design process, such as: the box should have a broad scope, it should take a formulaic approach, it should apply to profits not receipts, and it should benefit active ownership and innovation. The proposals in this second stage consultation incorporate all of those principles. In addition, the consultation includes a flexible, formulaic approach for calculating patent profits in order to balance the desire for certainty and simplicity with the need for the Patent Box to be flexible enough to take into account different business models and group structures.

The consultation closes on 2 September 2011.

UNREGISTERED DESIGN

Documentation of the Creative Process is Key to Overcoming an Inference of Copying

In *Albert Packaging Ltd* and *others v Nampak Cartons* and *Healthcare ltd* [2011] EWPCC 15, although there was an inference that the Claimants' unregistered design had been a consideration in the Defendant's creative process, the Defendant was able to produce documentation that showed the design as a work in progress.

BACKGROUND

In 2005, the second and third Claimants designed a carton for packaging tortilla wraps. In 2006 to 2008, this carton was sold, *via* an intermediary company, to a supermarket chain. In 2008, the intermediary undertook a re-tendering process and appointed the Defendant as its supplier of cartons in place of the Claimants. In 2009, the Defendant began producing a carton that the Claimants said infringed the unregistered design right in their 2005 product. The Claimants put forward three different approaches to the assessment of their unregistered design:

1) The shape of the carton in assembled form.

2) A generally rectangular box, except that the top face slopes downward from the rear face to the front face, there being a window extending from the sloped top face onto the front face.

3) The distance from the shoulder of the pack to the top of the back panel, along the back panel, is 35 mm, regardless of the length or width or depth of the pack.

The Defendant denied infringement and in addition said that no design right subsisted.

SUBSISTENCE

A Method of Construction

Following *Rowlawn Ltd v Turfmech* [2008] EWHC 989 (Pat), the judge found that the exclusion of design right subsisting in a method or principle of construction operated to limit the generality of the design to be relied upon. Applying this to the three design approaches put forward by the Claimants, the judge found that the second and third approaches were too general for an unregistered design right to subsist therein.

A Commonplace Design

The Claimants contended that the relevant field was limited to packaging for wraps. The judge, however, found that the notional designer would be familiar with designing cartons for other products. As such, the field was found simply to be carton design. Due to the generality of the second and third approaches and the nature of the packaging in the design field in 2006 (the relevant year), both were excluded from protection.

The judge did, however, consider that "to say that the particular combination of all the specific features of the Albert Packaging carton in its assembled form is commonplace would deny packaging designers any design right at all." Accordingly, the judge found an unregistered design right to subsist according to the first approach.

WAS THE DESIGN COPIED?

The judge found that "from the point of view of the side and front elevations of the cartons in their erected state, the only major visual differences between the Nampak cartons and the Albert Packaging design are the shape of the window and the width". It was also found that there was opportunity for the Defendant to have had access to the Claimants' design. There was "plainly" a case to answer, and without an explanation from the Defendant, the "only inference to draw would be that the products were copied from the [Claimants'] packaging design". The judge therefore moved to address the Defendant's explanation.

The design history of the Defendant's 2009 product went in three stages. In 2005, the Defendant produced two designs as samples for a client. In 2007, a design for a "Pizzatilla box" was produced for the common intermediary. Finally, the allegedly infringing design was produced in 2009. It was said by the Defendant to be based on the Pizzatilla box and one of the 2005 designs.

Because the Defendant had replaced the Claimants as suppliers to the common intermediary, the judge considered that it was "more likely than not that the Claimants' carton was one of the sources of ideas for the Pizzatilla box". As the 2009 carton was in part based on the Pizzatilla box, the judge found that the "Claimants' design was also another source of ideas which fed into the later carton designs and in particular into the 2009 carton design alleged to infringe".

INFRINGEMENT

Design right was said by the judge to restrain reproduction of the design by making articles to the design. This was to mean "copying the design so as to produce articles exactly or substantially to that design".

The judge found that all that had been derived from the Claimants' design was the dimensions of the side panel. To find infringement in the overall design on this basis would have "the effect of undermining Section 213(3)(a) of the Copyright Designs and Patents Act 1988 since in truth it would give unregistered design right to something which is no more than a method or principle of construction applicable to articles with many different appearances."

COMMENT

The case highlights the importance for designers to ensure that they document carefully their design histories, with drawings, dates and, if possible, a narrative. If the Defendant had not been able to explain—and prove—how it had arrived at the design, it would have been possible that the court would have had no choice but to infer both copying and infringement.

TRADE MARKS

Court of Appeal of England and Wales Upholds High Court's Construction of Co-Existence Agreement

The Court of Appeal of England and Wales has upheld the judgment of Mr Justice Arnold in a dispute between US company, Omega Engineering Inc (Omega USA), and Swiss watchmaker, Omega SA (Omega Swiss), over the application by Omega USA for a UK trade mark for OMEGA and the construction of a co-existence agreement.

In *Omega SA v Omega Engineering Inc* [2011] EWCA Civ 645 (27 May 2011), the Court of Appeal of England and Wales has upheld the judgment of Mr Justice Arnold in a dispute between US company, Omega Engineering Inc (Omega USA), and Swiss watchmaker, Omega SA (Omega Swiss), over the application by Omega USA for a UK trade mark for OMEGA and the construction of a co-existence agreement.

BACKGROUND

Omega Swiss has been known as OMEGA since 1903. Omega USA was founded in 1962 and manufactures scientific instruments for the measurement and control of temperature, humidity and pressure. Given the scope for confusion between the two businesses, the parties entered into a co-existence agreement in 1984, whereby Omega Swiss undertook not to object to the use or registration by Omega USA of trade marks consisting of or comprising the word OMEGA in respect of "excluded goods" defined as:

… Instruments and apparatus intended for a scientific or industrial application in measuring, signalling, checking, displaying or recording heat or temperature (including such having provision to record heat or temperature over a period of time and/or to display the time of day).

In May 2007, Omega USA applied to register OMEGA as a UK trade mark in Class 14 covering the excluded goods. Omega Swiss objected to the application. Both the hearing officer and Arnold J concluded that Omega Swiss was bound by its contractual undertaking not to oppose Omega USA's application. Arnold J granted summary judgment to Omega USA in respect of its breach of contract claim against Omega Swiss. Omega Swiss appealed to the Court of Appeal.

POSITION TAKEN BY OMEGA SWISS

Omega Swiss argued that the definition of the excluded goods applied only to goods in Class 9, such that the clause did not prohibit Omega Swiss from objecting to an application by Omega USA for a trade mark in Class 14. Although the definition did not mention any particular class, Omega Swiss argued that excluded goods were defined as goods belonging to Class 9 as the definition had been formed by reference to a pre-existing trade mark for OMEGA in Class 9 when the agreement was entered into in 1984.

Further, Omega Swiss said, the agreement was concerned primarily with issues of registration of trade marks rather than with the use of trade marks in trade as shown by the fact that the agreement was concerned with the wording of specifications of trade marks already registered. Therefore, the obligation depended on the class of goods concerned. In addition, there was nothing in the agreement relating to Omega Swiss' Class 14 registrations.

Omega Swiss also argued that the trade mark class number was relevant to the scope of the obligation, which should be construed as depending on the class in which Omega USA sought to register the mark.

Mummery LJ said this was a case of contract aimed at demarcating the respective fields of goods concurrently marketed by the parties using similar marks, rather than a trade mark case involving the classification of goods in a registration or use context. He dismissed Omega Swiss' arguments concerning trade mark law and the role of the classification of goods. The appeal turned only on giving effect to the intentions of the parties as expressed in the agreement.

The two critical points were that: 1) the agreement did not refer expressly to Class 9 or Class 14; and 2) it was not necessary for the purposes of business efficacy of the terms, and therefore not justified, to imply references to those classes into the agreement.

COMMENT

Arnold J had therefore been correct to find that Omega Swiss was in breach of contract. The agreement dealt with the use of the name in the market by the parties in the course of trade and not with the classification of goods for the purposes of registration of marks. Omega Swiss' undertaking could not be construed as depending upon the particular class of goods in which it sought to register excluded goods. Further, Arnold J had been right to find that trade mark classifications can and do change so that if excluded goods were moved subsequently from Class 9 to another class, the restriction on Omega Swiss would no longer apply. This would mean that the confusion the agreement sought to avoid would no longer be prevented and the intentions of the parties would not be achieved.

TRADE MARKS

UK High Coure Rules on Oral Community Trade Mark Licensee Rights

In *Jean Christian Perfumes Ltd v Thakrar (t/a Brand Distributor or Brand Distributors Ltd)* [2011] EWCH 1383 (Ch), John Baldwin QC, sitting as a Deputy Judge in the Chancery Division, ruled that even an oral licensee of a Community trade mark (CTM) can sue for infringement.

BACKGROUND

The Claimants, Jean Christian Perfumes Ltd and Jigsaw European Sales Ltd, were the registered proprietor and licensee of the CTM for STUNNING, registered in relation to perfumes and similar goods. The claim related to the 2008 unauthorised importation and distribution in the United Kingdom of two consignments of goods bearing the mark (the goods).

It was common ground that the goods were manufactured in India by the authorised manufacturers, Aroma de France, but were not in authorised packaging. The Defendant, Mr Thakrar, was an experienced dealer in perfumes and wanted to sell the goods. However, their importation and sale in the United Kingdom was without the consent of the Claimants and was an infringement of the CTM.

The issue in the case was whether Mr Thakrar's involvement was such as to amount to infringement of the Claimants' mark. According to Mr Thakrar, all he had done in relation to the first consignment was arrange shipment to a bonded warehouse in Rotterdam. In relation to the second he had "simply acted as a contact" between an importer and Aroma de France, unaware that the goods were destined for the United Kingdom.

There were two disputes as to the relevant law. First, whether or not an oral licensee of a CTM could sue for infringement; and second, whether oral use of a CTM constituted infringement. The judge was referred to no binding authority on either point.

DECISION

Is An Oral Licensee Permitted to Bring Proceedings?

In reaching his decision, the judge observed that even though Article 22(3) of the CTM Regulation provides that assignments of CTMs have to be in writing, there are no formalities with respect to licences. Consequently, Article 22(3) which allows a licensee to bring infringement proceedings if he had the consent of the owner, and Article 22(4), which permits a licensee to intervene to recover damages in infringement proceedings brought by the owner, both suggest that an oral licensee could bring infringement proceedings if he had the consent of the owner.

Does Oral Use Amount to Infringement?

The judge considered that oral use of a trade mark could amount to infringement, noting that the examples of infringing use as outlined in Article 9(2) of the CTM Regulation do not exclude oral use. Since Mr Thakrar had referred to the goods by the CTM in the course of commercial negotiations with traders, the judge found that he had infringed the CTM by oral use.

More generally, the judge also found Mr Thakrar to have played an active role in importing and distributing the goods in the United Kingdom and was therefore liable for infringement by importation.

COMMENT

This judgment provides authority, at least for UK courts, on the locus of an oral licensee in bringing CTM infringement actions, and highlights that in contrast to UK registered trade mark licences, CTM licences do not have to be in writing. As for oral use of a CTM amounting to infringement, brand owners will be pleased to see this principle confirmed and applied by a UK court.

COPYRIGHT

Breach of Co-Existence Agreement, Passing Off and Copyright Infringement

In *Future Publishing Ltd v The Edge Interactive Media Inc & Ors* [2011] EWHC 1489 (Ch) the Claimant succeeded in showing breach of a co-existence agreement through actions that amounted to passing off. The Claimant also succeeded in invalidating the Defendants' marks.

BACKGROUND

The proceedings were brought against Edge Interactive Media Inc (EIM), Edge Games Inc (Games Inc) and Dr Timothy Langdell. At the outset of the judgment, EIM and Games Inc were found to be controlled exclusively by Dr Langdell and anything that EIM and Games Inc had done had been solely through his intervention.

In 1993, Dr Langdell issued proceedings against Future for passing off, alleging that he had unregistered rights in the mark EDGE. In 1994, Dr Langdell applied to register the EDGE mark in Class 16 (printed matter), including gaming magazines. That litigation was settled in 1996, by which time Future had also applied to register EDGE as a trade mark in Class 16.

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Under the 1996 settlement agreement, Dr Langdell kept his registered mark and was given Future's trade mark application in return for a royalty-free licence for Future. Future paid Dr Langdell £20,000. All rights and goodwill arising out of the mark were to vest in EIM, which was prohibited from publishing or licensing anyone else to publish a magazine substantially similar to *EDGE* magazine under the name EDGE. EIM was also prohibited from claiming any association or connection with *EDGE* magazine or with Future.

In 2004, the parties entered into a Concurrent Trading Agreement and a Deed whereby the inherent goodwill and the trade marks (registered and unregistered) that included the word EDGE, and which covered magazines and printed matter in the field of computer games, were assigned to Future. The agreements also stated that Dr Langdell would not use any of the trade marks "in a way which is or could reasonably be confusing with Future's use of the same…"

BREACH OF CONTRACT

It was common ground that Dr Langdell had used three versions of an EDGE logo. One of the versions was indistinguishable from the logo used by Future and had been used on EIM's letterhead in 2008 and 2009 and on its website from 2003/2004 to June 2009. Dr Langdell admitted in cross-examination that he had adopted the EDGE logo on his website in order to create a connection in the mind of the public with Future. He said that he believed that he had the right to do so, on the basis of his assertion that it was he who had, in fact, devised the logo, an assertion that the judge rejected outright on the evidence.

The judge instead accepted Future's submission that all uses of the EDGE mark complained of were confusing or could reasonably be confused with Future's EDGE logo. This was a straight breach of the 2004 agreements.

The judge also accepted Future's submission that various statements made by Dr Langdell, combined with his use of the EDGE logo, were designed to confuse. The judge stated that there was ample evidence to justify the finding that the statements described a relationship between EIM and Future that did not exist. This "relationship comprised a confusing use of the EDGE mark, and was a breach of the 2004 agreements.

The breaches were found to be fundamental breaches according to the test expounded by Lord Justice Buckley in *Decro-Wall v Practitioners in Marketing* [1971] 1 WLR 361.

PASSING OFF

The judge found that Dr Langdell had tried to appropriate for his own business the goodwill associated with *EDGE* magazine through statements leading the public to believe EIM was responsible for *EDGE* magazine or that EIM's games were in some way approved or authorised by Future. It followed, "that all pleaded breaches of the [agreements] committed within the jurisdiction of the court also comprise acts of passing off as representations likely to lead to confusion".

COPYRIGHT INFRINGEMENT

The judge accepted that, on the evidence, it was Future's creative director, Mr Williams, who had created the EDGE logo, not Dr Langdell. Further, she said, the logo had artistic originality. Therefore, use by Dr Langdell of all three versions of the EDGE logo were copies infringing Future's copyright. Because Dr Langdell had threatened to continue using the logo, an injunction restraining him from further use was justified and appropriate.

INVALIDITY FOR NON USE

Dr Langdell's only evidence of use came from assertions in witness statements. There was no evidence of advertising or promotion of sales in the United Kingdom. The only evidence of anybody purchasing his games in the United Kingdom came *via* a "trap" purchase undertaken by Future for the purposes of the proceedings. When Future had tried to buy the games, they had not been delivered by EIM. In short, there was no evidence of genuine use by Dr Langdell in the United Kingdom. Dr Langdell's marks, accordingly, were found to be invalid.

COMMENT

This should have been a straightforward case of breach of contract, copyright infringement and passing off, but the case was complicated by allegations of forgery and evidence that was found by the judge to have been concocted. Expert evidence was required to prove (or, rather, disprove) the genuineness of information on disks said to date from 1991. New evidence and allegations of forgery arose during closing submissions that required the judge to consider whether or not to hear further evidence.

This makes interesting reading, but importantly it would appear that the judge found a sensible and proportionate way to deal with such matters in order to bring the proceedings to a close.

PASSING OFF

Localised Goodwill of Small Businesses

In *Redwood Tree Services Ltd v Warren Apsey t/a Redwood Tree Surgeons* [2011] EWPCC 14 (13 May 2011) it was found that a small business with highly localised goodwill could succeed in a claim for passing off against a business with a similar name located 10 miles away that traded in part in the same catchment area if there was the requisite misrepresentation. Unlike the national protection offered by a registered trade mark, the protection of goodwill against passing off is limited in scope to the geographical area common to both businesses.

BACKGROUND

The Claimant, Redwood Tree Services Ltd, was a tree surgery and forestry business based in Bisley, Surrey since 1986. In 2003, it registered the domain name *redwoodtreeservices.co.uk* and the name went live in January 2004. Around this period, the company was experiencing fluctuations in turnover following the sale of the business to new owners, but profits had later picked up again. It was during this fluctuation period in 2004 that the Defendant, Warren Apsey, started running a tree surgery business, trading as Redwood Tree Surgeons, in Hampshire, 10 miles from Bisley. Mr Apsey later registered the domain name *redwoodtrees.co.uk*. Based on turnover, the businesses were of comparable size.

The Claimant first complained in 2005 and launched an action in 2007, but due to funding difficulties the proceedings had not taken off until April 2010. The Defendant argued that when he started his business, the Claimant's business had stalled and that in any event the two businesses had been trading side by side for six and a half years without any confusion.

DECISION

HHJ Birss QC, sitting in the Patents County Court, stated the classic trinity of passing off: the existence of goodwill or reputation in relevant goods and services, a misrepresentation by a trader in the course of trade, and the likelihood of damage or loss as resulting from this misrepresentation.

Passing Off

He noted that there were several other businesses using the name "redwood" but based on the evidence, the judge found that despite the businesses in question being highly localised there was enough goodwill for a passing off action.

Misrepresentation

The judge acknowledged that the businesses had been trading in parallel in the same area for over six years with essentially identical names, but the critical date was 2004, the date the Defendant started the behaviour complained of. It was noted that although there was a strong inference that there was no deception where the parties co-existed without instances of deception coming to light, non-deception could not *necessarily* be inferred from this. The judge stressed that actual deception was not required, but rather the likelihood of it, even where there was no actual diversion of trade. From the evidence presented, the judge held that if the Defendant traded in the same area as the Claimant using the name "Redwood Tree Surgeons", the public was likely to think that the two businesses were connected, although using the same name away from the Claimant's catchment area would not amount to a misrepresentation.

There was some overlap in the areas in which the parties traded. Given the size of the businesses, the subsequent customer base, and the goodwill the Claimant had in the goods and services in question, it was held that there was a misrepresentation by the Defendant and that placing an advert in the same directory as the Claimant was an act of passing off. The judge concluded that the likelihood of damage was therefore automatic and it was immaterial whether there had been any actual loss to the Claimant's business.

RELIEF

HHJ Birss QC granted an injunction limiting the Defendant to trading with the name within specified post code areas that the Claimant did not cover. The judge did not go so far as to require the Defendant to take down his website, but stated that certain measures had to be put in place to ensure that the Defendant did not trade in or advertise to trade in the Claimant's area. No damages were awarded as there was no evidence of actual loss to the Claimant.

COMMENT

This case shows that small localised businesses may not be able to completely stop competitors using virtually identical names, but they may be able to get the court to delineate trading areas by way of an injunction to deal with the passing off. It also highlights the benefits of registered trade marks that grant UK-wide protection over a reliance on the law of passing off that requires an establishment of goodwill, which for a small business, may be limited to a small area.

DATA PROTECTION

Big Brother Becomes Big Bother For CCTV Monitoring Website Forced to Change the Way it Operates

The Information Commissioner's Office (ICO) has required CCTV monitoring website, Internet Eyes, to make significant changes to its operations after CCTV footage of a shopper was posted on YouTube.

BACKGROUND

Internet Eyes allows retailers to have their live surveillance footage streamed online to registered members who can get rewards if they spot and report crimes they see taking place.
In January 2011, the ICO received a complaint about a clip posted on video sharing website YouTube that contained an identifiable image of a person in a shop. The clip appeared to have been uploaded by a viewer who had used the CCTV footage streamed to their computer from the Internet Eyes website.

The ICO investigated and found that Internet Eyes had not encrypted the transfer of CCTV images it was streaming to its viewers over the internet. The company also did not keep a full record of its viewers' activities and so was unable to identify which viewers had monitored specific footage. Internet Eyes was therefore unable to determine which viewer had posted the clip online.

ICO UNDERTAKING

On 18 May 2011, Internet Eyes agreed to the terms of an undertaking laid down by the ICO. In consideration of the Information Commissioner not exercising his powers to serve an Enforcement Notice under Section 40 of the Data Protection Act 1998, Internet Eyes undertook to ensure that personal data was processed in accordance with the Seventh Data Protection Principle. In particular, it undertook to ensure that equipment and technology used to transmit personal data, the loss of which could cause damage or distress to individuals, were encrypted using encryption software that met the current standard or equivalent. Furthermore, it undertook to ensure that a full audit trail of all user activity was implemented and the details retained for a sufficient period, so that individual, named viewers of particular footage could be identified at any time. Internet Eyes also agreed to consider carefully where it sited its cameras and to carry out adequate checks on viewers before accepting them in order to verify their identity, integrity and location.

The ICO has also required Internet Eyes, by 31 July 2011, to ensure that no viewer can access footage from cameras located in the same postcode, or in any postcode district within a 30 mile radius of the viewer's registered location. Finally, Internet Eyes undertook to

…implement such other security measures as it deems appropriate to ensure that personal data is protected against unauthorised and unlawful processing, accidental loss, destruction, and/or damage. In particular, these measures should be aimed at preventing the unauthorised dissemination of footage by viewers signed up to the Internet Eyes scheme.

The ICO then carried out random spot checks in several shops registered with the scheme, as well as visiting the company's office in Devon to see first-hand the changes that had been put in place. From the evidence seen so far, the ICO has said that it is satisfied that Internet Eyes is complying with the terms of the undertaking.

DECISION

The ICO took this matter very seriously, although it had only received one complaint. Deputy Commissioner, David Smith, said:

CCTV footage should not end up on YouTube when it shows someone simply out doing their shopping. A person's CCTV image is their personal data… it should only be disclosed where necessary, such as for the purposes of crime detection, and not merely for entertainment… We will… continue to keep a close watch on them and do not rule out taking more formal enforcement action if further complaints are received.

DATA PROTECTION

European Parliament Calls for Stronger Rules on Personal Data Protection

In adopting a resolution on the need for a comprehensive approach to data protection in Europe, the European Parliament notes that the current regime is strong but can be improved. Areas of focus are: the need for full harmonisation, the protection of children using social networks, and that all EU citizens should have the right to know what information is being stored and for what purpose.

On 6 July 2011, the European Parliament adopted a resolution calling for stronger rules on personal data protection.

BACKGROUND

The resolution is designed to influence the revision of the existing EU data protection framework (due to be launched by the European Commission after the Summer). Although the resolution notes that the current EU Regime under Directive 95/46 is strong, it identifies a number of areas that can be improved in light of changing use of technology and patterns of data sharing.

The key areas the resolution addresses are the need for children using social networks to be protected by EU data privacy rules and that all EU citizens should have the right to know what information is being stored and for what purpose. The resolution also states that people must be able to have their data easily deleted, corrected or blocked, be informed about any misuse or lapses in data protection, and that the process for international transfer needs to be simplified and reviewed.

NEED FOR COMPREHENSIVE, MODERN RULES

The European Parliament found that the EU needs comprehensive, modern rules to protect fundamental rights, in particular privacy, whenever personal data is processed "within and beyond the European Union". Data protection rules must also be extended to the areas of police and judicial cooperation between EU countries.

Sanctions

The updated data protection law should include "severe and dissuasive sanctions", including criminal penalties, for misuse and abuse of personal data. National data protection authorities should be given the necessary resources and be granted harmonised investigative and sanctioning powers.

Data Transfers

When personal data is transferred and processed outside the European Union, the draft resolution says that: "it is imperative that data subjects' rights are fully enforced". International data transfer procedures must be improved and "ambitious core EU data protection aspects to be used in international agreements" must be devised by the Commission.

Children

The resolution also states that data protection law should recognise formally the need to "specifically protect children and minors", as young people have growing access to internet and digital content and tend to divulge personal data on social networking sites. It is also suggested that media literacy should be included in formal education, to instruct children and minors how to act responsibly in the online environment.

Freedom of the Press

The Committee notes that the current Data Protection Directive obliges Member States to provide for exemptions from data protection rules when personal data are used solely for journalistic purposes or the purpose of artistic or literary expression. To safeguard press freedom, Members of the European Parliament urge the Commission to ensure that these exemptions are preserved.

No artificial barriers to data protection

The resolution also states that companies should avoid erecting unnecessary barriers to the individual's right to access, amend, or delete his or her personal data, and in this respect it also backs the idea of requiring firms to appoint "company Data Protection Officers".

Consent

Lastly, the individual's consent to use of his data should be considered valid "only when it is unambiguous, informed, freely given, specific and explicit".

COMMENT

Following on from the European Data Protection Supervisor and the Article 29 Working Party, the resolution contains increasingly familiar themes. The focus now will turn to the Commission, which should publish its formal legislative proposal later this year.

A comprehensive framework covering data processing "within and beyond the European Union" echoes the warning from EU Justice Commissioner Viviane Reding to non-EU operators, particularly social networking sites, that if they target the European Union they will be required under the new regime to abide by strict EU data protection rules (although it is not clear how this will be enforced). Last but not least, the specific need to protect children is likely to be expressly acknowledged in the new framework, with privacy by design obligations likely to provide that protection in principle.

UNFAIR CONTRACTUAL TERMS

Gym Contracts and The Unfair Trading Regulations

The High Court of England and Wales has held that Ashbourne Management Services Ltd's standard form contracts breached the Unfair Terms in Consumer Contracts Regulations 1999, the Consumer Protection from Unfair Trading Regulations 2008, and the Enterprise Act 2002.

In *Office of Fair Trading v Ashbourne Management Services Ltd* [2011] EWHC 1237 (27 May 2011), the High Court of England and Wales has held that Ashbourne Management Services Ltd's standard form contracts breached the Unfair Terms in Consumer Contracts Regulations 1999 (UTCCRs), the Consumer Protection from Unfair Trading Regulations 2008 (CPRs), and the Enterprise Act 2002.

BACKGROUND

Ashbourne provides services to gyms, including recruitment, standard form contracts, and payment collections. Typically, their contracts had a minimum term and provided that if the customer defaulted or sought early termination, all sums for the minimum term became due. Where consumers fell behind on payments or wished to cancel their contracts early, Ashbourne would by-pass the courts and send letters from a non-existent "litigation department", threatening to inform and/or informing credit reference agencies, often exaggerating the significance of this.

Numerous consumer complaints were made about Ashburne's aggressive behaviour. The Office of Fair Trading (OFT) took action. Amongst other things, the OFT argued that certain contract terms were unfair under the UTCCR. Examples of unfair terms included: a minimum membership period, prompt payment of monthly subscriptions, the member must pay the whole remaining subscription balance up front if he or she wished to terminate the membership early, a clause that purported to exclude the consumer's right to terminate for the gym's breach.

MAJOR CONCLUSIONS

The Court considered 13 versions of the standard form agreements. The major conclusions related to minimum term of contract, prompt payment and termination for consumer's breach, consumer's liability on termination for club's repudiatory breach, and unfair practices under the UTCCR.

Minimum Term of Contract

Most of Ashbourne's standard form contracts had minimum terms of 12, 24, or 36 months. Holding that Ashbourne knew the average consumer overestimated their prospective gym attendance, that unforeseen circumstances might make its continued use impractical or unaffordable, and that in spite of low monthly subscriptions a consumer who was likely to stop using the gym after three months would be better off joining on a pay-per-month basis, Kitchin J held that Ashbourne did not draw this to the consumer's attention. He said that Ashbourne's business model took advantage of customers' naivety and inexperience.

Prompt Payment and Termination for Consumer's Breach

Kitchin J considered numerous provisions in different contract versions concerning the consequences of customers failing to pay promptly. Where prompt payment was found not to be a condition and failure to pay on time was thus not repudiation, the gym was unable to demand the outstanding subscription balance up front. Where there was no condition of prompt payment but nevertheless a term allowing the gym to claim the balance due for the minimum membership period without any discount in the event of a repudiatory breach, such clauses would be enforceable if they did not exceed a genuine attempt to estimate in advance the loss that the gym club would likely suffer from a breach.

Here, Kitchin J held them to be unfair because they did not allow for accelerated payment and required the member to pay the full balance of monthly subscriptions, irrespective of when the breach took place. Where there were clauses allowing a gym to terminate in the event of a non-repudiatory breach, the gym could claim sums due and damages for losses suffered up to the date of termination but not beyond. A clause that provided for the payment of a larger sum would be void. Clauses entitling the gym to claim all balance subscriptions over the period where there was non-repudiatory breach were void and unfair. Kitchin J found more moderate terms in later agreements acceptable.

Consumer's Liability on Termination for Club's Repudiatory Breach

Kitchin J rejected the OFT's submission that versions of the contract containing the words "you cannot cancel your membership until the minimum membership period has come to an end", purported to exclude the member's termination rights following the gym's repudiation. He did not think the average consumer would believe that to be so.

Unfair Commercial Practices Under the CPRs

Finding certain of the provisions of the agreements unfair under the UTCCRs, Kitchin J held that this constituted unfair commercial practice under the CPRs and a community infringement of the Enterprise Act. Ashbourne had not acted in accordance with the standard commensurate with honest market practice and had caused consumers to take transactional decisions they would not otherwise have taken, namely to enter into and make payments under such agreements. Threatening to report members to credit reference agencies if they did not pay the full sum demanded was also held an unfair commercial practice that harmed the collective interests of consumers.

CONSUMER RIGHTS DIRECTIVE

European Parliament Approves the Proposed Consumer Rights Directive

On 23 June 2011, the European Parliament approved the proposed Consumer Rights Directive (CRD), which now only needs formal approval from the European Council to become law. The proposed Directive contains significant new protections for consumers including clearer pricing rules, common rules on delivery and transfer of risk, and a 14 day right of withdrawal.

BACKGROUND

The proposed Consumer Rights Directive was originally envisaged by the European Commission as consolidating the four existing consumer rights Directives. However, due to concerns from some Member States over the erosion of national consumer protections, unfair contract terms and consumer guarantees were removed from the ambit of the CRD. The CRD updates and merges the Distance Selling Directive (97/7/EC) and the Doorstep Selling Directive (85/577/EC) into a set of common rules.

Healthcare and social services, gambling, financial services, and real estate will be exempted from the scope of the CRD. Passenger transport is covered only insofar as hidden costs and fees are prohibited (e.g., by ruling out "pre-ticked boxes") and websites must be designed in such a way as to inform a consumer unambiguously when and what he must pay for his tickets.

KEY POINTS

The Right of Withdrawal

The CRD will stipulate a 14 day EU-wide withdrawal period for distance and off-premises sales. The trader will be required to refund the consumer within 14 days of the withdrawal.

The new rules also extend the consumer's right of withdrawal to home party sales and online auctions. However, auction purchases may be returned only if they were bought from a professional seller, not from a private individual.

Exemptions From the Right of Withdrawal

There are several exemptions from the cancellation right. These include, for example, magazines (with the exception of subscription contracts), car rentals, airline tickets and hotel bookings, perishable goods, and bespoke goods.

Digital goods, such as music, films or software programs, will also be exempted from the right of withdrawal. The sale will be regarded as irreversible from the moment downloading begins. Additionally, when cancelling a service, the consumer will be required to pay for work already done by the service provider. Urgent repairs, such as a burst water pipe, are also exempted from the right of withdrawal.

Delivery

Under the new rules, goods ordered at a distance must be delivered to the buyer within 30 days, otherwise the consumer will have the right to cancel the purchase. The trader is responsible for any damage or loss of the goods during delivery.

Informed Choices

It should be clear to consumers from whom they are buying, exactly what they are buying and how much it will cost when shopping online or ordering from a catalogue. The identity and address of the seller must always be clear. The new information rights are also designed to put an end to hidden charges, such as those associated with the "pre-ticked boxes". However, "day-to-day transactions" where the goods are delivered "immediately" will be exempted from the information rules.

COMMENT

The Commission's ambitious proposal to bring the four existing consumer rights Directives under a single umbrella Directive based on maximum harmonisation encountered stiff opposition from Member States. The exclusion of unfair contract terms and consumer guarantees from the proposal thus leaves intact the United Kingdom's approach to the right to reject and the United Kingdom's six (as opposed to two) year limitation period. The proposed CRD must now be approved by the Council.

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