Trademark management

Time for trademark counsel to get their heads into the cloud

Cloud computing creates many legal issues, from jurisdictional questions to privacy and security concerns. For brand owners, the cloud can be an especially frustrating place, but by understanding the legal and business issues involved, IP risks can be balanced and mitigated

At its essence, cloud computing is an architecture which allows cloud service providers to deliver software over the Internet to multiple customers in a manner which is elastic and scalable. Because cloud computing can deliver usage-billed, on-demand and infrastructure-free software platforms, it reduces capital expenditures and operating costs and optimises ongoing capital utilisation. These advantages come with particular issues for the different classes of organisation that are affected by cloud computing: cloud service providers, cloud customers and third-party IP owners.

IP rights and the contractual responsibilities arising from the cloud service contracts, including licence agreements and service level agreements, comprise the framework which defines the relationships between these groups.

Copyright, trademark and other IP laws give third-party IP owners tools to enforce their rights against both cloud service providers and cloud customers. IP laws follow the same fundamental procedures for IP registration, enforcement and licensing, regardless of the size or shape of the cloud service provider or customer. However, cloud contracts vary greatly, especially with respect to IP enforcement procedures, licensing and liability. Understanding each party's interests and rights is important when organisations consider and evaluate the risks and rewards of the cloud.

From the cloud service provider perspective, the key issues are IP licensing and mitigation of third-party liability risk. The correct balance for both of these issues depends on the type of service being offered. When the cloud service is inexpensive or free, termed a 'high-volume service', the cloud provider generally uses a 'click-wrap' agreement to contract with the customer. In many cases the cloud service provider retains all licensing rights to uploaded content while shifting all third-party infringement liability risk to the customer. The customers of high-volume services acquiesce to the cloud provider's terms so they can take advantage of the service.

However, cloud service providers marketing high-volume services are themselves at risk of IP infringement liability. A high-volume cloud service provider hosting infringing material may find itself defending itself from a contributory or vicarious infringement cause of action. To avoid this, cloud service providers should post information providing third-party IP owners notice of the cloud service provider's procedures for handling claims of infringing content.

When the cloud service is expensive or requires a significant amount of integration work, both parties generally negotiate the contract. Unlike high-volume service providers, low-volume service providers will generally be required to saddle some of the risk by indemnifying the customer against infringement actions brought by a third party against the cloud service provider. Ideally, these agreements will include an internal procedure under which both parties will act in managing third-party IP disputes.

Finally, some low-volume cloud services rely on a co-branding effort between the cloud service provider and customer effectively to market the service to other customers and the customers' end users. When such cooperative marketing efforts are planned, both parties should engage in a limited licence of the others' intellectual property requiring prior approval before publishing.

From the cloud customer point of view, free or low-cost high-volume cloud computing platforms can come with onerous terms that sometimes more than offset the cost benefits. Many of these agreements put all IP infringement liability risk on the customer and can assert licences to the cloud service provider for unfettered use of content uploaded by the customer. Because the customer has little to no negotiation power when using high-volume cloud services, the customer should alleviate risk by implementing internal controls such as an acceptable use policy. Among other things, acceptable use policies include rules prohibiting employees from uploading potentially infringing materials when using cloud services.

With low-volume cloud contracts, customers have more opportunities to shift and share risks with the cloud service provider. Indemnification is the first step in protecting the customer against infringement by the cloud service provider. But indemnity provisions without the emergency funds necessary to pursue the defence of any infringement claims are ineffectual. As a result, cloud customers should contractually require the cloud service provider to carry the appropriate limits on their insurance coverage. Newly developed insurance products, such as cyber-liability coverage, supplement the standard errors and omissions policies to cover incidents of data security and IP infringement.

Where a third-party IP owner discovers infringing use of its trademarks or other intellectual property in a cloud computing service, the terms of use posted to the cloud site should be reviewed first to determine the best course of action. The terms of use should include a description of the process that IP owners should take if they believe their IP rights are being infringed. Generally, the IP owner will be required to submit notice to the cloud service provider of the alleged infringement. If an IP owner follows the dispute procedure outlined in the terms of use, but receives no relief in spite of its efforts, it should retain experienced counsel with knowledge of the specific IP laws of the country in which the cloud service provider is incorporated to determine the next steps.

In most jurisdictions, trademark rights enforcement of the type implicated by cloud computing is the responsibility of the IP owner. Because of this, the task of monitoring intellectual property use falls upon the IP professional or brand owner. As more data moves into the cloud, more opportunities exist for infringement and the task of monitoring the intellectual property becomes more onerous. As a result, IP owners and brand owners are increasingly monitoring their intellectual property using any number of service providers, such as Net Enforcers, MarkMonitor and Westlaw Alerts.

Through the use of indemnity and insurance requirements, internal controls, published policies and procedures and IP monitoring services, each party can mitigate its IP infringement risk and take advantage of the cloud's promises of improved capital utilisation and reduced operating costs. WTR

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