WEIL, GOTSHAL & MANGES

# Update IP/IT Law

Summer 2010

## Update on developments in information technology and intellectual property law

Welcome to our update on developments in information technology and intellectual property law.

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### Digital Economy Bill receives Royal Assent

The Digital Economy Bill received Royal Assent on 9 April 2010, and became the Digital Economy Act 2010 ("**DEA**"). The DEA implements many aspects of the Digital Britain final report. One of the most controversial aspects of the new Bill are the proposed changes to the current law to tackle illegal online copyright infringement and illegal peer-to-peer file sharing. The Bill includes provisions requiring ISPs to take technical measures against serial infringers, including an outright suspension of a subscriber's internet account.

*New rules relating to online copyright infringement*

The obligations are triggered when copyright owners present an ISP with a copyright infringement report ("**CIR**") identifying IP addresses through which the copyright infringement is taking place. ISPs are required to investigate and send a warning letter to the account holder. The ISPs must maintain records of infringements and provide copyright owners with lists of subscribers (anonymised) referred to in the CIR. The aim is to reduce copyright infringement through illegal P2P file-sharing. Ofcom will be responsible for the specification covering the procedural and enforcement aspects of these obligations through the approval or adoption of legally binding codes of practice.

If these initial obligations on ISPs are not as effective as anticipated i.e. online infringement has not reduced by 70% in 12 months, the DEA gives the Secretary of State the power to direct Ofcom to assess whether ISPs should be obliged to take a range of technical measures against certain subscribers and then, by order, require the ISPs to do so. The measures include limitation of internet connection speed and suspension of the connection. Any such direction must be laid before Parliament. The DEA contains provision for Ofcom to make a "technical obligations code" in relation to any technical obligations imposed, for the purpose of regulating those obligations. This will include the right for subscribers to bring appeals to the first-tier tribunal.

*When will the rules come into force?*

The section of the DEA relating to the approval or development by Ofcom of a code on the new internet service provider obligations on copyright infringement will come into force straight away. Most of the remainder of the Act will come into force two months later.

### Google's AdWords given trade mark all clear by ECJ

*The Judgment*

The European Court of Justice (the "**ECJ**") has ruled that advertisers are free to buy keywords identical to the trade marks of competitors as long as consumers are not confused as to the origin of

the goods and services by the way advertisements were displayed online. In cases where advertisements could confuse consumers, trade mark owners should invoke their rights against the advertisers concerned, not against Google unless Google failed to act on a complaint or actively manipulated keywords.

Whether consumers are likely to be confused by the way search results were displayed is a matter for national European courts to decide on a case by case basis. Such an adverse effect on the function of a trade mark will be presumed: (i) where there is suggestion of an economic link between the advertiser and the trade mark owner; and/or (ii) where the advertisement is so vague that a reasonably attentive internet user cannot determine whether there is an economic link between the advertiser and the trade mark owner.

*The facts*

Google generates money from advertising through their "AdWords" system, whereby advertisers pay for the use of a third party's trade mark which, when used as a search term, brings up the advertisement. Louis Vuitton ("**LV**") brought a claim against Google in the French courts relying on provisions in the EC Trade Mark Directive in seeking to prevent the use by Google and advertisers of their trade mark as keywords. LV argued that such use was infringing their trade mark. The case was referred to the ECJ for guidance on the legality of keyword advertising.

The ECJ held that Google's actions did not amount to trade mark infringement: it did not use the mark in the course of trade, even though it clearly draws economic advantage from AdWording practices that do. Google is merely an information service provider for the purpose of the E-Commerce Directive (2000/31/EC) and did not play an active role so as to give it knowledge of, or control over, data stored at the advertiser's request. It does not infringe any trade marks (unless, having obtained knowledge of the unlawful nature of the advertiser's activities, it failed to expeditiously remove the trade marks), but merely creates the environment in which trade mark owners and advertisers do business.

*What this means for businesses*

The ECJ's judgment gave little additional clarity to other businesses which use the AdWords service. However, it is clear that businesses should register any trade marks immediately and get complaints in as soon as possible where they consider that advertisements using their trade mark as a keyword confuse customers about the origin of products and services. Further, businesses will continue to face higher advertising costs as competitors are free to bid for other people's marks in the AdWord system.

## High Court finds that 'perpetual' does not mean 'never ending'

*Summary*

The High Court has recently held that a licence which had been amended to be "perpetual" could still be terminated pursuant to the termination provisions in the original licence, in the absence of clear wording to the contrary.

*Decision*

BMS Computer Solutions ("**BMS**"), a computer software business, licensed software to J. Bibby Agriculture Limited ("**Bibby**"). The licence was for a period of 10 years unless it was terminated earlier and provided the accompanying technical support agreement was not terminated. Both agreements were varied in 2000 (when Bibby was replaced by its successor in business AB Agri Ltd ("**Agri**")) to make the licence perpetual. In December 2008 Agri gave notice to terminate the support agreement but asserted that the licence to use the software continued on the grounds that it was perpetual.

BMS asserted that the continuation of the licence was conditional on the continuation of the support agreement and applied for summary judgment in relation to the contract terms. Agri argued that the

following the verification, Agri could not be forced to take the support services for as long as it used its software as this was not possible with a 'perpetual licence', that is, one that could not be broken.

Mr Justice Sales allowed a summary judgment holding that "the word 'perpetual' can carry different shades of meaning." It can mean 'never ending' (as in, incapable of ever being brought to an end) or can mean 'operating without limit of time'. In this case, the latter interpretation was appropriate and the licence was of indefinite duration, but subject to any contractual provisions governing termination under the licence as originally drafted.

The High Court held that when Agri terminated the support agreement it also terminated the licence. Further, the term 'perpetual' referred to and extended the licence as originally drafted and did not create a new one. The absence of termination provisions in the variation discussions, a fundamental issue in any commercial contract, indicated that the parties did not intend to create a new licence and that the termination provisions in the licence as originally drafted were intended to continue in force. Further, if the parties had intended that those provisions should be deleted, it is natural to suppose that they would have referred to them in the variation discussions rather than leaving it to be inferred from the use of the term 'perpetual'.

*What this means for businesses*

This case highlights the need for clear and explicit drafting to give effect to the parties' intentions. Both licensors and licensees should ensure there is no ambiguity in the terms on which business-critical software is granted, either as to the duration of the licence or the scope of the end users who will be covered. It should also be noted that a 'perpetual' licence is still subject to termination provisions unless clear wording to the contrary is used.

## Is goodwill abandoned by non-use of a trade mark?

*Facts*

Mr Maslyukov applied to register the word marks DALLAS DHU, CONVALMORE and PITTYVAICH as UK trade marks for Scotch whisky in 2006 and 2007. The names were those of three Scottish distilleries, previously owned by Diageo, which had produced single malt Scotch whisky under their distillery name. Diageo had not registered the distillery names as trade marks. The distilleries closed in 1983, 1992 and 1993 respectively. After closure, Dallas Dhu became a visitor centre, Convalmore was used for whiskey storage and Pittyvaich was knocked down. However, whiskey from the distilleries continued to be sold by independent bottlers and Diageo issued limited-edition releases of Convalmore whisky in 2003 and 2005.

Diageo opposed Mr Maslyukov's applications on grounds of bad faith and its earlier unregistered rights in the names and corresponding goodwill. Diageo were successful on the first ground but unsuccessful on the second and so appealed to the High Court.

*Decision*

The High Court held that it had no jurisdiction to entertain Diageo's appeal on the basis of its earlier unregistered rights in the names and corresponding goodwill as it had been successful in opposing the mark on grounds of bad faith.

However, the judge went on to hold that the hearing officer had been wrong on the passing off issue. First, Diageo had clearly established that it had a stock of Convalmore whiskey which it had sold in the recent past under the brand and intended to do so again. The court therefore held that Diageo owned goodwill in that trade mark and it was immaterial that there was no probability of whisky being distilled at the distillery again.

Second, the re-sale of DALLAS DHU and PITTYVAICH whiskies under the brands generated goodwill that accrued to Diageo's benefit. Furthermore, Diageo owned residual goodwill even though the distilleries had closed - the goodwill was not destroyed when the distilleries ceased production. On the contrary, the goodwill was sustained by further sales of whisky by the independent bottlers.

Finally, the court held that the hearing officer overlooked the well-established principle of passing off - that it is not necessary for members of the public to know the identity of the manufacturer of the goods in order for the goodwill in the trade mark to be protectable.

*What does this decision mean?*

The decision is a useful illustration of how goodwill can continue to subsist in a business that has ceased trading. It is particularly pertinent in the current climate when businesses maybe considering the disposal of brands which are no longer used by it and streamlining its trade mark portfolios. It also provides comfort to those wishing to purchase trade marks from companies in administration.

From a practical perspective, companies purchasing trade marks from sellers in administration or sellers which no longer use the marks should acquire sufficient evidence of use (thereby strengthening the claim of goodwill) of those marks by the previous owners. This will be vital to protect the brand in the future.

**Forthcoming Seminars**

We are holding a seminar regarding Lessons Learnt from Lehman and GM - Issues to be considered by multi-nationals in light of potential distress or disposal of part of their business. The seminar will also cover effective strategies to be implemented where suppliers are under financial distress.

This will be held on Thursday 15th July at 17:00. Please contact Ann Burditt to register your interest in this free seminar.

If you have questions about the issues covered in this newsletter, feel free to contact:

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