LICENSING EXECUTIVES SOCIETY
BRITAIN AND IRELAND

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The Newsletter of the Licensing Executives Society Britain and Ireland **Issue 125 March 2009**

President's Diary

Your Society has remained active and upbeat in the last few months, shrugging off the continuing depressing financial and business news; and I am confident that LES members, with their involvement in innovation, IP and technology transfer, are well placed to take full advantage of the upturn when it comes. And with some beginning to see the green shoots of recovery, that may not be too far off.

So what has been going on within LES?

On the meetings front, there was a meeting of the Expanded Executive of LES International in Delhi at the end of January, followed in early February by the Scottish branch's traditional Burns' Night Supper in Edinburgh and the Annual One Day meeting at the Institute of Directors in London. As I write this piece, final preparations are underway for a meeting organised by the North West Group in Manchester later in February and for the Fundamentals Course at Cranfield in March. On the committee front, the Laws committee has been busy working on submissions to the European Commission on a number of key initiatives (see the separate report in this edition), Ian Hartwell and his colleagues in the education committee are busy preparing for the Fundamentals Course, Meredith Lloyd-Evans and the Renewables Committee remains active and Anne Lane and her team are continuing to make good progress in preparing for the LESI Meeting we will be hosting in 2011. Last but not least, Council has continued its regular meeting schedule, covering a range of topics including a full discussion of Barry Quest's excellent materials from his Policy Interest Group (see Barry's article in the last edition). My thanks to all those involved in all these meetings and committees for the continued work on our behalf, including our team at Northern Networking.

The LESI Meeting in India confirmed the commitment of the current President of LESI, Adam Liberman, to "shake things up". A number of key potential changes to the operations of LESI were discussed, and will be considered further at the International Delegates Meetings in Manila in June and in San Francisco in the Autumn. There was also a very successful meeting of LES India on the Thursday and Friday before the Expanded Executive Committee Meeting which attracted about 100 delegates, and was also said to be a big success. (I was, unfortunately, unable to get to either of these meetings. I am grateful to Barry Quest for representing us at these meetings.)

The Burns' Night Supper was, once again, very well attended and a big success. I was also unable to get to this as a result of the heavy snow in London and the resulting travel disruption. But once again, Barry Quest was there, extolling the virtues of LES membership before he and the audience succumbed to other distractions. Hopefully those who were not already members will have remembered enough of Barry's words, or enjoyed the evening sufficiently, to cause them to sign on the dotted line after the haze had cleared. Thank you to Caroline Sincock for making this such a wonderful event.

The London meeting on 11 February was also successful, with about 50 people registering after only a few weeks' publicity for the event. In a series of lively and interactive sessions, the speakers examined all aspects of the deal process, from analysis of needs, to target identification, due diligence and negotiation planning, through to managing

the alliance once formed, including discussing how to use mediation and litigation effectively. The formal proceedings were followed by an opportunity to network (including meeting the many new and younger faces who had been attracted by the excellent programme, and had clearly been impressed by their first experiences of LES) over drinks and then dinner - with Dai Davies given an excellent after dinner speech on only a few minutes' notice, when the advertised speaker had to drop out due to a throat infection. Our thanks to Dai for that and to Vice-President Mark Wilson for his superb organisation and chairing of the event.

A busy few months, and more to come: Copenhagen in May, Manila in early June, our own Annual Conference in Leeds later that month (24 and 25 June), and more later in the year. What better incentive could there be for those who have not yet renewed their membership to do so now. If you need any help in persuading those who hold the purse strings of the value of LES membership, I would be very happy to help. Or just show them the registration forms for some of our meetings, particularly the London meeting on 11 February and the forthcoming Fundamentals Course, and point out the enormous gulf between our members' rates and the charges levied by commercial conference organisers. Or, better still, bring them along to an LES event. They may be so impressed that they will join themselves!

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When in Rome II…

On 11 January 2009 the Rome II Regulation (EC No. 864/2007) on the law applicable to non-contractual obligations came into force and will be applied directly in all EU Member States except for Denmark. The Regulation brings changes to the rules determining the law which will govern non contractual obligations in civil and commercial matters.

What are non-contractual obligations and why is the applicable law important?
Non-contractual obligations cover delict/tort (which govern reparation for loss wrongfully caused; for example, through negligence), unjust enrichment, liability arising out of acts performed without due authority and pre-contractual liability.

The applicable law for non-contractual obligations regulates important matters such as the basis and extent of liability, exclusions or limitation of liability and the existence, nature and assessment of damages (Article 15). As such the applicable law may have crucial importance in the event of a dispute.

What does Rome II say?
Rome II provides that the general applicable law is that of the country in which the damage occurs (Article 4(1)), which changes the previous rule which was that the applicable law was that of the country in which the harmful events constituting the tort/delict in question occurred.

The new general rule is subject to certain exceptions, such as where the parties share a common habitual residence (Article 4(2)); where the tort/delict is "manifestly more closely connected" with another country (Article 4(3)); where the matter relates to product liability, unfair competition, environmental damage, or IP rights (Articles 5, 6, 7 and 8 respectively); or where the parties have chosen "with reasonable certainty" to apply a different law (Article 14).

Freedom to choose - what are the key changes?

- **Right to choose**

Under Rome II, parties contracting commercially are now free to choose the law for non-contractual obligations by agreement, subject to certain exceptions. This introduces a new practical consideration for drafting. In the interests of certainty parties may start choosing a governing law which applies to both contractual and non contractual obligations.

- **Exceptions to freedom to choose**

There are exceptions to the right to choose. For example, where all elements relevant to the situation at the point of the harmful event are located in a different country, provisions of that other country's law may become relevant (Article 14(2)).

Further exceptions include mandatory provisions of the law of the forum (Article 16; e.g. the Unfair Contract Terms Act 1977 if the forum is the UK), public policy of the forum (Article 26) or where the dispute relates to a specifically regulated matter such as IP rights (Article 8).

It is therefore important for parties to understand that even if they draft an express governing law, there are exceptions that may displace this.

- **IP infringement**

Under Article 8, there are specific rules for non-contractual obligations arising from infringement of IP rights, which cannot be derogated from by agreement. The law applicable to such obligations is that of the country for which the IP protection is claimed, subject to specific provision for Community IP rights.

However, there remain unanswered questions regarding these provisions, particularly with respect to misuse of confidential information, including trade secret issues, which may fall outwith the ambit of Article 8.

- **Pre-contractual negotiations**

Rome II also provides for pre-contractual events, such as breach of confidence, misrepresentation or a duty to act in good faith. Under Article 12, the law applicable to pre-contractual dealings will generally be the law that applies (or would have applied) to the contract itself.

The applicable law in this context may be significant: for instance, the duty to negotiate in good faith in pre-contractual negotiations does not generally exist under Scots or English law, but may through other Member State laws. Thus, parties may want to consider choosing a governing law at the outset of negotiations for greater legal certainty. This will be especially important to remember when agreeing heads of terms.

Conclusion

The purpose of this article is simply to highlight Rome II and its potential impact upon legal drafting. In the context of cross-border agreements, parties should consider choosing a clear governing law both for contractual and non-contractual obligations to ensure certainty and consistency. Parties should however bear in mind the potential derogations that may subject any disputes to an applicable law other than of their choice.

Fiona Nicolson
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Welcome!

Council is pleased to welcome the following new members to the Society:
Michael Brand, Captum Capital Ltd.; **Leighton Cassidy**, Field Fisher Waterhouse; **Victor Humberstone**, The Technology Partnership plc; **Zosia Martin**, Scottish Health Innovations Ltd.; **Trevor Thompson**, Thompson Gray; **Stephen Trotter**, Thompson Reuters.

Congratulations!

Many congratulations to Jeanne Kelly, Chair of LES Ireland Region, who gave birth to a boy, John Robert, on 9 January 2009. Mother and son doing very well.

EU Matters

Preliminary Report on the EU Pharmaceutical Sector Inquiry
Review of the Current Regime for the Assessment of Horizontal Co-operation Agreements
Article 82 Guidelines

Abstract. ***In December 2008 the European Commission has produced its Preliminary Report on the Pharmaceutical Sector Inquiry, instituted a review of the application of Article 81 (3) of the Treaty of Rome to Commission Regulations 2658/ 2000, the Specialisation Block Exemption Regulation, and 2659/ 2000, the Research and Development Regulation Block Exemption ("RDBE"), and issued a draft set of guidelines on Article 82 (abuse of a dominant position).***

The Pharmaceutical Report causes most concern, highlighting certain practices the Commission believes are anti-competitive. But these are practices used by all businesses that use the intellectual property system. If the Report's approaches are followed all technology industries will be liable to attack by the Commission for anti-competitive behaviour!

The RDBE exempts qualifying R&D agreements from the application of Article 81 (1) where certain conditions are met. LESI questions whether there is a continuing need for this given the existence of other related Block Exemptions, which can lead to confusion. LESI did not comment on the Specialisation Block Exemption Regulation.

The Article 82 Guidelines provide a helpful reference point and summarise in one place the Commission's views on abusive conduct, including refusal to license IPRs.

The European Commission has been busy in the run up to Christmas. Or rather it has kept practitioners busy. In November and December it produced its Preliminary Report on the Inquiry into the Pharmaceutical Sector; instituted a Review of the Current Regime for the Assessment of Horizontal Co-operation Agreements; and produced draft new guidance on the application of Article 82 (Abuse of Dominant Position).

Comments on the first two were required by 30th January 2009, and Christmas and New Year intervened! The Article 82 guidelines were the culmination of consultations which began in 2005 and were not subject to further consultation but are worth noting for readers.

Despite the tight timetable many bodies submitted comments. LESI, through the offices of Jean-Christophe Troussel, Chairman of the LESI European Committee, has been active in commenting on the Preliminary Report of the EU Pharmaceutical Sector Inquiry and on the EU Consultation on the Regulations on the RBDE. Members of the Laws Committee of LES (B&I), particularly Susan Singleton, Colin Sainsbury and Robin Nott, have been active in that process.

Brief reviews of these three matters follow.

Preliminary Report on the Pharma Sector Inquiry

In January 2008 the European Commission launched a sector inquiry into the pharmaceuticals market in Europe with a series of unannounced "dawn raids" on a number of research based and generic pharmaceutical companies "because the pharmaceuticals markets [in Europe] are not working as well as they might. Patent protection has never been stronger, but the number of new pharmaceuticals coming to the market is declining. ……generic manufacturers are not jumping into the market as quickly as we would expect".[1]

On 29th November 2008 the Commission launched its Preliminary Report at a public meeting in Brussels.[2] The Preliminary Report "does not seek to identify wrongdoing by individual companies or to reach any conclusion as to whether certain practices described in the report infringe EC competition law. It provides the Commission with a factual basis for deciding whether further action is needed".[3]

Nevertheless the tenor of the report and the way in which it was presented[4] suggest that the Commission believes that there are significant competition problems with the operation of the pharmaceutical sector. And this was reflected in the press comment that followed the publication of the report.

But while the Inquiry is directed at the pharmaceutical industry, the complaints made apply to a greater or lesser extent to all industries which rely on patents to protect their technologies and ideas, not just the pharmaceutical industry. The results of the Inquiry have the potential to go far beyond the pharmaceutical industry, into all high technology industries, notably including telephony and electronics.

Many bodies, including intellectual property professionals and the European Federation of Pharmaceutical Manufacturers Associations (EFPIA), have taken issue with very many aspects of the report. Many of the objections, including LESI's, go to the whole basis of the report, and to the way in which the Commission views the pharmaceutical industry in particular, and by implication, given that all use many of the same techniques and practices, innovative industry in general. EFPIA[5] has also gone into a detailed exposition of the way in which the European pharmaceutical industry operates to criticise the methodology of the report and the conclusions it reaches. Many, if not all, of EFPIA's complaints are echoed in other reports.

Some of the most important problems highlighted are:

- the use of a "toolkit" of practices by the originator companies including:
  - accumulating portfolios of patents and allegedly "bad patents"
  - patenting improvement products
  - delaying patent filings

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[1] Speech by Neelie Kroes, Commissioner for Competition, at the launch of the sector inquiry into pharmaceuticals. 16th January 2008. See: http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/08/18&format=HTML&aged=0&language=EN&guiLanguage=en

[2] Report at http://ec.europa.eu/competition/sectors/pharmaceuticals/inquiry/preliminary_report.pdf. Public presentation of preliminary findings, including copies of all presentations made and details of the press release to launch the inquiry, at http://ec.europa.eu/competition/sectors/pharmaceuticals/inquiry/index.html.

[3] Preliminary Report, page 5. Executive Summary at A Introduction, third paragraph.

[4] See: Commissioner Kroes' opening remarks at: http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/08/659&format=HTML&aged=0&language=EN&guiLanguage=en

[5] See: http://www.efpia.org/Content/Default.asp?PageID=563 and http://www.efpia.eu/Content/Default.asp?PageID=559&DocID=5933

    - litigating patents and entering into settlements
- the suggestion that these practices create a number of other problems in the market for pharmaceutical products including a reduction in the introduction of innovative products and delays in the entry of cheaper generic pharmaceuticals.

But these approaches are not unique to the pharma industry. They are used by all industries lawfully to protect the developments that they make and to enable the industry to make, and get a reward for making, improved products. All manner of goods, iPods, cameras, 'phones, televisions, as well as drugs, benefit from this process and for the benefit of the consumer.

Nor are these approaches and problems recent. In his speech made at the request of the Commission at its launch of the Preliminary Report, Lord Justice Jacob of the English Court of Appeal, a very experienced English patent barrister and judge, quoted a publication of 1947 which records exactly the same situation.[6] Doubtless these approaches and problems go back to the beginning of patent law. And there is no doubt that patent law has developed various sophisticated ways of dealing with them. The common aim of these solutions is achieving the correct balance between public and private interests and between what is given to the owner of the patent and what is available to the public at large.

The great problem in the European Union (EU) is the absence of a single central procedure in which patents can be tested once they have been granted. Such a procedure has been proposed since the beginning of the European patent system in 1973, but political pressures have prevented this.

Taking the analysis in the Preliminary Report to its logical conclusion seems to lead to the following propositions:

- that once a product has been developed improvements to it should not be protected; and
- that patent holders should not use litigation or settlements, the only routes they have, both of which are specifically sanctioned in European law (and indeed in the laws of all the industrialised nations of the world), to enforce their rights.

If these propositions are used as a basis for the development and application of the competition rules, LESI is concerned that the way is opened to the risk of:

- discouraging the protection of innovation;
- as a result reducing the inducements to innovate in the EU;
- as a result driving innovative industries away from the EU;
- as a result of that reducing the levels of employment in and the GDP of the EU; and
- delaying, or possibly denying, EU consumers the benefits of innovation,

and across all technical sectors, not just the pharmaceutical industry.

The "Lisbon Strategy" aimed at making the EU the most competitive economy in the world and achieving full employment by 2010. To propose ideas that will run directly contrary to that strategy in 2009 must be undesirable.

Other commentaries on the Preliminary Report, some extremely detailed, follow similar lines.

While no-one, least of all LESI which exists to develop the free flow and use of technology, wishes to see competition being unlawfully stifled and markets for innovative products operate in an inefficient manner, there are a number of well-established means available to the Commission and to companies and individuals to address these issues and it is surely appropriate to rely on them to resolve cases rather than expanding the ambit of competition law.

Given the criticisms that have been made of the Preliminary Report it will be interesting to see the Commission's next steps. It is due to produce its final report in the Spring, presumably by mid-June, but delay must be likely if the Commission is going to have time to consider fully all the objections raised.

Given the amount of work that the Commission has done on the Preliminary Report and the views that it clearly holds, it seems unlikely that the Commission will not pursue the pharmaceutical industry in due course.

However the Pharmaceutical Sector Inquiry is the fourth sector inquiry launched by the Commission under Commissioner Kroes. Previous inquiries have been into gas and electricity; into retail banking; and into business insurance. There have not been a series of competition cases as a result. But Commissioner Kroes said in presenting the Report, "Our Preliminary Report shows that we have picked up the trail, scent, and now we are following the lead".

It will be interesting to see what happens next; and to consider the consequences for research based European industry.

Review of the Current Regime for the Assessment of Horizontal Co-operation Agreements

The RDBE exempts qualifying R&D agreements from the application of Article 81 (1), where certain conditions are met and will expire at the end of 2010. The RDBE is underpinned by a recognition of the economic efficiencies arising from R&D agreements, and the fact that most R&D agreements, below a certain level of market power, are likely to result in greater efficiencies and positive effects, which outweigh the negative effect of the agreement on competition. It is, however, the experience of many LESI members, that the RDBE is of limited utility in practice, and its application can result in uncertainty, as outlined in the LESI submission to the European Commission.

In order to prepare for the regime to be applied after 2010 the Commission is seeking users comments on the current regime.

The first comment on the RDBE is whether the RDBE is actually necessary, in light of the other block exemptions.

If the RDBE is necessary, then its application must be made more transparent and relevant in its interaction with other block exemptions.

Collaborating on R&D should ordinarily be viewed as pro-competitive benefits (as recognised by the RDBE), in furthering the economic growth of the European Union. The main competition concern concerns the future exploitation of IP rights. In LESI's view, this issue is already adequately dealt with under other block exemptions, the technology transfer block exemption ("TTBER") and vertical restraints block exemption, which provide sufficient guidance on those restrictions on exploitation rights that are permissible.

LESI submits that the co-existence of the RDBE with the other block exemptions, in particular the TTBER, can lead to unnecessary confusion and complication of the analysis of the competitive implications of an agreement. For example, the impact of the seven year limitation contained in Article 4(1) of the RDBE, raises the question as to what the status of the co-operation is after 7 years, relative to its effect on competition. The seven year period seems unnecessary,. There is no similar limitation in the TTBER provided

[6] See:
http://ec.europa.eu/competition/sectors/pharmaceuticals/inquiry/jacob.pdf
and the Session 3 video at
http://ec.europa.eu/competition/sectors/pharmaceuticals/inquiry/index.html.

the market thresholds are complied with, even though licensing is a common element of exploitation of the RDBE.

Any future RDBE must take account of the economic efficiency considerations and the contribution of R&D to consumer welfare in the economy at large. A shift in market demand towards new innovative products, resulting from R&D and innovation, in particular in the energy and life sciences sectors, underpins the future growth of the Community. Companies active in the R&D field will only rationally invest in R&D if commercial opportunities from such research can be exploited. Amendments to the RDBE must recognise the need for the results, of R&D projects, to be rolled out in the least restrictive manner possible. It is in this context that the robust protection of intellectual property rights must receive greater recognition in any future RDBE.

In summary, LESI proposed the following key amendments to the RDBE (if the Commission deems it necessary to continue to maintain the RDBE):

- Clarification and inclusion of "Ancillary Restraints", averred to in Article 1.2, directly necessary to implementation of an R&D and exploitation agreement;
- Reduction of the number of "Hardcore" restrictions for the purposes of Article 5 of RDBE, and inclusion of new list of "Excluded" clauses, similar to that of the TTBER;
- Clarification of the definition of "Joint" exploitation of results under Article 2.11(c) and current tension between Article 1 and certain prohibited Clauses in Article 5;
- Extension of the 7 year comfort period under Article 4, to encompass the lifetime of patents filed as a result of an R&D project, in appropriate circumstances;
- Special recognition for SMEs owing to unique contribution to the European economy.

Article 82 Guidelines

In February 2009 the Commission adopted Guidelines on Article 82 Enforcement Priorities ending a review of abuse of a dominant position which began in 2005. The Commission has now moved to a more "effects based" approach in looking at what may amount to abuse and contrary to Article 82. (The UK Office of Fair Trading gives similar guidance under the Competition Act 1998.)

Although Article 82, unlike Art 81, does not render clauses in contracts void, breach can lead to fines and how it is enforced is of interest, particularly as the only alternative method of enforcement is private damages actions or actions for injunctive relief which are very rare and very expensive . In the *Yeheskel Arkin v Borchard Lines Ltd & Others* [2003] EWHC 687 (Comm) decision for example the damages action led to a 50 day trial and the defendants incurred legal costs of £6m. So in practice, although both the EU (and UK) antitrust authorities want to encourage private civil damages actions, the risk of such suits being brought is low. Whether the EU (or OFT) will step in is usually the key issue.

The Guidelines mention refusal to license intellectual property as potentially an abuse by companies with a dominant market position in joined cases C-241/91 P and C-242/91 P *Radio Telefis Eireann (RTE) and Independent Television Publications Ltd (ITP)* v *Commission (Magill)* [1995] ECR 743; and Case C-418/01 *IMS Health* v *NDC Health* [2004] ECR I-5039, but only in exceptional circumstances is a refusal to license abusive. The guidance does not alter the current law in this area.

The Guidelines mention abuse where interface information is not supplied (Case T-201/04 *Microsoft* v *Commission* [2007] ECR II-36011) and where access is wanted to an "essential facility" (such as a port) or a network – see *Stena Sealink – Interim Measures* (OJ 1994 L 15, 18.01.1994, pp. 8–19); IV/33.544 *British Midland* v *Aer Lingus* OJ 1992 L 96, 10.4.1992, p. 34).

Refusals to supply goods to prevent the purchaser engaging in parallel trade are specifically mentioned as potentially abusive (Judgment of 16 September 2008 in Joined Cases C-468/06 - C-478/06 *Sot. Lélos kai Sia and Others* v *GlaxoSmithKline*.)

The Commission does not regard it as necessary for the refused product to have been already traded in order to make a finding of breach of Art 82. This could be material for a new product protected by IPR which the rights owner was refusing to license. It is sufficient "that there is demand from potential purchasers and that a potential market for the input at stake can be identified".

Nor does the refusal have to be actual. "Constructive refusal" is sufficient: for example unduly delaying or otherwise degrading the supply of the product or the imposition of unreasonable conditions for the supply. Also the dominant undertaking may breach Article 82 simply by charging a price for the product on the upstream market which, compared to the price it charges on the downstream market, does not allow even an efficient competitor to trade.

The Commission will "consider these practices as an enforcement priority" if the following cumulative circumstances are present:

- the refusal relates to a product or service that is objectively necessary to be able to compete effectively on a downstream market;
- the refusal is likely to lead to the elimination of effective competition on the downstream market; and
- the refusal is likely to lead to consumer harm.

In practice most potential abuses for refusal to supply/license are not investigated, even where a complaint is made to the EU (or OFT) and the victim can be left without an effective remedy, particularly if there is no consumer harm and simply a middleman/distributor is damaged.

The Guidelines provide a helpful point of reference or summary of the EU case law to date on abuse of a dominant position and will aid those lawyers advising clients on whether the Commission might take up an Article 82 complaint or whether that is unlikely.

The Guidelines were issued in the various EU languages in February 2009 and published at http://ec.europa.eu/competition/antitrust/art82/guidance_en.pdf

The Commission also issued Frequently Asked Questions accessible via http://ec.europa.eu/competition/antitrust/art82/index.html.

Robin Nott
Susan Singleton
Colin Sainsbury
David Hourihane

Copies of the LESI submissions can be found on the LES (B&I) website at:

- Comments on the Preliminary Report on the Pharmaceutical Sector Inquiry at: http://www.les-bi.org/documents/LESIcommentsonPreliminaryReportonPharmaInquiry.pdf
- Comments on the Current Regime for Horizontal Agreements at: http://www.les-bi.org/documents/LESIcommentsonEUHorizontalAgreements.pdf

ARE YOU AT THE MERCY OF YOUR WEBSITE DEVELOPER?

A guide to the common issues which arise and how to avoid the pitfalls when commissioning the development of a website.

Nowadays most businesses use the Internet in some manner to perform their everyday transactions. For example, many businesses trade by selling their products and/or services via their own website. Whilst actually trading on the web can raise a multitude of legal issues, in this article we are specifically looking at some of the issues which arise and how to avoid them when a third party developer is commissioned to design and develop a website.

Development of a website
If a business has sufficient IT capability it maybe able to develop its own website in-house. However, in most cases, businesses look to instruct an external specialist to create an internet presence.

If a third party developer is to be used, it is essential that a written contract is in place which governs the terms of the instruction. Many developers will have their own terms and conditions which, of course, will be biased in their favour. Therefore, it is very important before commissioning a consultant to develop a website that the terms and conditions upon which you contract are reviewed very carefully. Outlined below are some of the common pitfalls in commissioning the development of a website and how best to avoid them:

Ownership of intellectual property
To have complete freedom to do whatever you like with your website and its content you will need to own that copyright. Under UK copyright law, the author of a work is the owner of the copyright subsisting in that work. Where an external consultant is commissioned to develop a website, unless otherwise contracted, it is the consultant who will own the copyright in the work. In order to ensure that you own all the copyright, the contract upon which the developer is commissioned must contain a provision assigning all copyright and other intellectual property subsisting in the website and its contents to you.

A less satisfactory alternative is for the developer to assign all intellectual property rights in the unique look and feel of the website to you and to grant you an irrevocable non-exclusive licence to use the other code.

It is advisable to include a provision in the contract which ensures that you can assign all your rights in the website to third parties. This may be appropriate if you are considering the sale of your business sometime in the future. You should also ensure that your intellectual property rights in any materials supplied to the developer are protected and that the developer is under obligations of confidentiality.

It is also a good idea to ensure that the contract contains a warranty which provides that all intellectual property subsisting in the website and its content will not infringe the rights of any third party.

Domain Name
It is important that you own the domain name at which your website will be located.

Agree a specification
Often disputes arise because the website developers fail to meet the customer's expectations. It is therefore essential that a detailed specification for the work to be carried out is agreed before commencement of the work so that each party knows the requirements and objectives.

Payment
Another obvious cause of dispute is in relation to payment. Consider if payment is on a fixed fee basis or if it is based on time spent and materials. One way to help avoiding issues regarding payment is to ensure that the contract provides for staged payments which are linked to achieving specific milestones within certain time scales and acceptance testing procedures. Before the last payment is made there should be a final acceptance which ensures the website meets with the agreed specification.

Hosting, support and maintenance
If the website developer is to host, maintain and/or support your website you will need to consider the basis upon which those particular services are to be provided and provisions dealing with these additional services can be included in the website development contract. However, you can also enter into separate contracts dealing specifically with the provision of those services.

You should also ensure that the contract provides that if you decide to change your provider you are able to move your website.

Conclusion
As with most commercial transactions, when commissioning the development of a website it is important to get a good contract in place. Don't just accept the website developer's terms and conditions. Take time to review and negotiate the terms under which the website is being developed and provided to you.

It is advisable to obtain advice from a solicitor specialising in information technology - in the long run this advice may save you a lot of wasted time and money.

To read the full article visit our website at www.virtuosolegal.com/articles

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(This information is for guidance purposes only and should not be regarded as a substitute for taking legal advice)

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Luxury battles again with the Discounters

A preliminary ruling by Attorney General Mme Juliane Kokott ("AG") at the European Court of Justice ("ECJ") considers for the first time the effects of a trade mark licensing agreement on the exhaustion of rights of the trademark owner.

Background:
In May 2000, Christian Dior couture SA ("Dior") licensed to société industrielle de lingerie ("SIL") the use of the DIOR trade mark for the manufacture and distribution of lingerie products. The contract specifically stated that *"in order to maintain the reputation and prestige of the mark, [SIL] will not sell to... [discount companies]... without prior written consent of [Dior], and will take all possible steps to enforce this rule by its distributors or retailers"* (based on a translation of the ruling by Babel Fish).

SIL went into receivership and, without Dior's consent, sold Dior lingerie to a discounter, Copad International ("Copad") who sold the products on to third parties. Dior sued both SIL and Copad for trade mark infringement.

The Paris Appeals Court ruled that SIL hadn't violated trade mark law by selling Copad the products, however, sales made in breach of the licence did not trigger the exhaustion of rights contemplated by Article 7(1) of the First Council Directive No 89/104/EEC (the "Directive"). Dior could move to enforce its trade mark rights against Copad. Both Dior and Copad appealed to The French Supreme Court (C - 59/08) who referred 3 questions on Articles 7 and 8 of the Directive to the ECJ.

The preliminary ruling:
Question 1 (Licensing)

The AG ruled that Article 8(2) allowed Dior to invoke the rights conferred by the DIOR trade mark against SIL **provided** the sales which had occurred (by both SIL and Copad) had seriously damaged the prestige/image of the Dior brand to the extent that it called the quality of the Dior product into question. Unfortunately for Dior, the AG added that a trade mark's reputation would not **necessarily** be affected by the occasional sale of the products by discounters, suggesting that minor breaches by a licensee of a licence for luxury products which explicitly bans sale to discounters may not fall foul of Article 8(2).

Question 2 (Exhaustion of Rights)

The AG ruled that Article 7(1) applies such that if SIL markets the Dior products in the EU with the **consent** of Dior, then the trade mark is exhausted. To interpret whether the consent of the owner had been obtained, Article 8(2) must be referred to. Where a licence to use the trade mark is in place, then the consent of the owner has been obtained unless a licence breach of the type specified in Article 8(2) has occurred.

Since the answer to Question 1 envisaged that Article 8(2) can be breached (in terms of prestige) only by serious damage; then only when serious damage to a trade mark's reputation has occurred can the owner claim that their rights in the trade mark have not been exhausted when a licence exists. Not great news for luxury brands who try to vigorously protect against all damage, however small, to their reputation.

Question 3 (Exceptions to Exhaustion Principle)

Article 7(2) provides exceptions to the general rule in Article 7(1) that once goods are on the market under a trade mark with the owner's consent then the owner's rights under the trade mark are exhausted. The AG pointed out that the ECJ has already ruled that the exceptions in 7(2) do include damage to the reputation of a brand in principle (Dior will be familiar with one of the relevant rulings, *Parfums Christian Dior SA v Evora EV (C-337/95) [1997] E.C.R. I-6013*, where they were objecting to the resale and advertisement of their perfume in less than its accustomed luxury style, and the ECJ found that an exception existed where **serious** damage would be caused to the reputation of the trade mark).

The AG ruled that the exception concerning reputation does **not** allow Dior to oppose the commercialisation of the Dior branded products via discounters merely because there was a clause in the licence agreement which prohibited sale of the products to

discount stores. The sale to discounters does not necessarily in itself cause serious harm to the reputation of a prestigious trade mark; in order to invoke Article 7(2), the damage caused must be serious.

Conclusion
A clause in the trade mark licence of a luxury brand which bans the sale of its products to discounters may not be enough to protect prestigious brand owners in trade mark law against **all** damage to their brands, no matter how serious. Unfortunately, as termination was not discussed, it is not clear of the effect of including a right to terminate the licence on sales by the licensee to discounters.

Sales in contravention of a licence by discount stores must cause **serious** damage to the reputation of a trade mark in order for the owner's trade mark rights not to be exhausted. Interestingly, the law in this area seems to be developing along side competition law advances concerning luxury brands.

The ruling has arguably been somewhat buried by the ECJ – for example, an English translation is still outstanding. It therefore remains to be seen whether the ECJ will take such a lenient view on discounters. The ECJ is expected to hand down a judgment in the first half of this year.

Alice Proby
Charles Russell

LES Scotland Region News

Full write-up of the well-attended and snowy LES (Scottish branch) Burns' Supper will be in the next Edition of NewsXchange. But, meanwhile, we didn't want to miss the opportunity to tell you about our next event, which is hoping for warmer weather - our **"Cream Tea" on Due Diligence** to be held in **Glasgow on 14 May from 3.45pm**. This Cream Tea seminar will look at the diligence aspects of doing IP driven deals. A line up of four highly experienced speakers (lawyer, patent attorney, investment banker and human resource specialist) will share their views and practices on how to approach due diligence; they'll make reference to their own experiences, but will also **use a fictional licensing and investment case study** to illustrate their points. They'll take us through the process and priorities for diligence investigations from the perspectives of licensor, licensee, investor, investee, collaborator and business advisor. So it's an event that will be of relevance to us all and we look forward to welcoming you on the day"
Caroline Sincock

Members on the move>>>>>>>

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Also please note that **Charles Russell LLP** is moving its London head office from New Fetter Lane to:
5 Fleet Place
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All phone numbers and email addresses will remain the same. The move will be completed by 9 March 2009

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