

## Welcome to the fourth edition of insight

We thank you for your feedback on previous editions and welcome any comments you may have regarding this or future editions. Please let us know if there are any particular topics which you would like us to cover in future editions.

Articles in this edition include recent developments in comparative advertising, an overview of the fast track procedure in the Competition Appeal Tribunal, and a look at some of the means of achieving contractual certainty. As well as taking a look at the importance to suppliers of the use of retention of title clauses in their supply contracts, **insight** also brings you our regular feature of Did You Know?

We would like to invite you to receive future **insight** briefings by email rather than in hard copy format. By registering for e-communications it will allow for the speedier delivery of communications and help us to reduce the impact of the business on the environment.

And finally, there has been a large amount of recent legal activity in this sector so there will be a number of interesting topics for us to deal with in the fifth edition of **insight**, which we will be circulating in the Summer.

## Comparative Advertisers versus Trade Mark Holders

Comparative advertising has always been permissible under UK law but until the Trade Marks Act 1994 the previous legislation created a barrier of uncertainty, which was enough to dissuade many organisations from using a competitor's trade mark in their own advertising.

The Trade Marks Act 1994 went some way to alleviating this by providing (to paraphrase) that nothing shall prevent the use of a registered trade mark for the purpose of identifying goods or services as those of the proprietor provided such use was in accordance with honest practice and did not without undue cause take unfair advantage of, nor was detrimental to, the distinctive character or repute of the mark.

This laid the ground for a marked rise in the number of comparative advertisements that has ultimately led to high profile comparative advertising campaigns such as those run by Asda comparing its prices with other supermarkets.

The situation was very different in other EU countries, for example comparative advertising was effectively outlawed in Germany, but the Comparative Advertising Directive (CAD) was enacted to harmonise the

position throughout the EU. This is now governed by the Business Protection from Misleading Marketing Practices Regulations 2008 (the Regulations), as referred to in the 'Beware of Misleading Marketing and Commercial Practices' article in our previous issue of **insight**.

The so-called "bubbles case", O2 Holdings Ltd and O2 (UK) Ltd v Hutchinson 3G Ltd, last year, appears to have eroded the position of trade mark holders whilst increasing the importance of the Regulations. The judge at first instance found that trade marks should have no role at all to prevent comparative advertising. He suggested that the only recourse a trade mark holder should have is through the Regulations and therefore via the OFT. Unsurprisingly the case was appealed and the Court of Appeal asked the European Court of Justice (ECJ) to provide a definitive ruling as to the interaction between trade mark law and CAD. To the relief of trade mark owners, the ECJ's decision clawed back some ground making it clear that trade mark law still has a role to play.

The ECJ found that whilst the use of a competitor's trade mark in a comparative advertisement could potentially amount to an infringement,

the trade mark holder may not prevent a competitor from using its trade mark if the advertisement satisfies all the conditions set out in CAD. However, it went on to add that where the use of the trade mark gives rise to a likelihood of confusion (as defined in trade mark law) then the conditions set out in CAD cannot be met, irrespective of whether the advertisement satisfies all other conditions.

So, whilst the position is now certainly less favourable to trade mark holders than it has been in the past, if a comparative advertiser breaches the conditions set out in the Regulations or uses a competitor's trade mark in a manner that could give rise to confusion in the minds of the public then the trade mark holder could still potentially bring an infringement action

(in addition to its right to make a complaint to the OFT under the Regulations).

This is not necessarily the end of the story though. Another case, L'Oreal S.A. v Bellure N.V, is currently awaiting an ECJ ruling upon similar questions and whilst it is expected that the ruling will come to similar conclusions it is by no means certain. That case concerns some slightly different aspects of trade mark law and CAD, not covered by the decision in O2, and as a result it is certainly possible that the ECJ may choose to apply different reasoning.

In particular, one of the conditions set out in CAD is that the advertisement must not take unfair advantage of a trade mark. It is unclear precisely what is and is not "unfair" in this context

and the judge, Jacob LJ again, has asked the ECJ to provide clarification.

If the ECJ gives a broad meaning to what it considers to be "unfair" it could swing the pendulum back in favour of trade mark holders since, to some extent, most if not all comparative advertisements take some sort of advantage of the reputation of the product being compared, after all, advertisers do not compare themselves with unknown brands.

The Advocate General has given his preliminary findings and it would appear to favour the trade mark holders but his opinion has been roundly criticized for being confused and unclear so it is to be hoped that ECJ's formal decision will provide a clearer idea of where the balance of power actually lies.

## Increasing popularity of fast track procedure in Competition Appeal Tribunal

### Competition Appeal Tribunal (CAT) – fast track

CAT hears appeals from parties who have suffered as a result of a breach of competition law by a third party. Such breaches may include abuse of a dominant position or cartel activity. Appellants may be competitors, customers or suppliers. The fast track procedure allows appellants to rely on previous judgements given by competition regulators and therefore do not have to spend time and money proving that there has been a breach of competition law. The appellant, however, will still have to establish that the breach has caused loss. The Competition Act 1998 provides that, should the appellant be judged by CAT to have suffered loss as a result of a breach of competition law, it will be able to recover damages in respect of those losses.

### Recent case example

In November 2006, the Office of Rail Regulation (ORR) judged that the English Welsh and Scottish Railway (EWSR) had breached competition law by abusing its dominant position in the market in regard to the supply of coal by rail. ORR imposed a fine of £4.1 million on EWSR for this breach. In August 2008, Freightliner, using the fast track principles to rely on the previous judgement of ORR, issued a claim with CAT against EWSR for

damages and interest for its alleged loss from the breach of competition law.

Freightliner sought to show that it had suffered such loss as a result of the breach by EWSR since EWSR's activities had placed it at a competitive disadvantage, had reduced its market share and therefore reduced its profitability, causing loss and damage. In January 2009, the CAT published an order confirming that Freightliner had withdrawn its claim. This withdrawal could suggest that Freightliner is either negotiating with, or has reached a settlement with EWSR.

### Issues

The CAT fast track procedure provides the victims of those parties who have already been judged by regulators to have breached competition law with an effective (cheaper and speedier!) mechanism to recover damages for their loss without having to prove the breach itself. There appears to be an increasing use of CAT by parties seeking damages. Clearly, this should be a further consideration, along with other options such as the imposition of fines by regulators, director disqualification and criminal sanctions for those whose business(es) may place them at risk of breaching competition law.

# Achieving Contractual Certainty

## The benefits of a written contract

Oral contracts, as well as written contracts can (in most cases) be legally enforceable. Oral contracts may appear quicker and cheaper alternatives and may seem attractive where a business is entering into a simple, straight forward arrangement or one that is short in duration or with a regular customer. However, inevitably the simplest of transactions can go wrong and it is at this point that oral contracts can prove less than reliable. Also, certain contracts (such as assignments of copyright) must be in writing to be valid.

In light of this, it is prudent for a business to ensure that it records all the terms of an agreement in a formal written contract. This not only provides a business with valuable certainty as to its and the other party's rights and obligations, but the agreement can also be relied upon as evidence of their intent in the event of any later dispute.

## Entire Agreement Clause

It is often beneficial to include a so-called 'entire agreement' clause in a written contract. This clause seeks to prevent parties from relying on any statements or representations (including those made pre-contract) that have not been included in the written contract, to vary or contradict the written terms.

Whilst there is a common law principle that outside evidence cannot be adduced to vary a written contract (known as the parole evidence rule) the rule is, however, subject to exceptions if one party can show that a reasonable person would not think that the written document was meant to be the whole contract.

Therefore, for added certainty and in an attempt to exclude this exception, it is advisable to always include an entire agreement clause in any contract.

## Regular Review

A business should regularly review the terms of its contracts to evaluate its position, an exercise which is arguably even more important in the current economic climate.

Even where a business considers there is little scope for change or negotiation in its contracts, a review of its obligations, with the benefit of legal advice where necessary, can provide a useful source of information to the business as part of its risk management.

## Managing Risk

A business should assess the risks associated with being unable to fulfil its contractual obligations as well as the commercial consequences where

other parties to a contract are unable to perform under those contracts. Even if a business is well placed, it is worthwhile assessing its position under important contracts to account for difficulties being experienced by the other party.

## Questions to ask

- What are your obligations under your contracts?
- What would your liabilities be in the event of termination of a contract, either by you or the other party?
- What would the risks be to you of wrongful termination of a contract by you or the other party?
- Would termination of a contract cause any problems for your business continuity, for example, would you be able to arrange another supplier?
- What leverage/bargaining strength do you have? It may be possible to renegotiate contract terms in light of financial pressures on the parties.
- Are there any signs of financial stress on the other party to the contract? If so, this may provide greater room for flexibility and negotiation in your contractual obligations.

## Merseyside Innovation Awards

Brabners Chaffe Street is a sponsor of the annual Merseyside Innovation Awards. The Awards aim to recognise and reward the use of innovation as a means of boosting growth and profitability. The Awards are open to individuals or companies with less than 50 employees who are based within Merseyside and have an innovative product or service. They will be eligible to win £10,000 in cash and £4,000 worth of legal, business, accounting or design consultancy. The Awards can also assist in obtaining support from some of the region's leading business advisors and valuable publicity.

If you have a unique or original idea or innovation with commercial potential that may bring benefit to Merseyside, apply for the Merseyside Innovation Awards at [www.merseysideinnovationawards.co.uk](http://www.merseysideinnovationawards.co.uk). Please contact us if you require any further information.

Please note the closing date for applications is currently 18th May.



# Retention of Title

In January 2009, the Forum for Small Business found that 68% of businesses it surveyed had experienced an increase in late payments. This is indicative of the underlying cash flow issues that are being seen throughout the supply chain as a direct result of the credit crunch. It has led to suppliers reviewing their standard terms and conditions to check what rights they have available to them in order to limit the possibility of those late payments turning into unsecured debts as a result of customers becoming insolvent.

The key clause which suppliers should ensure is in all of their contracts, and upon which they are likely to become ever more reliant in the coming months, is the retention of title (ROT) clause. If drafted correctly, an ROT clause will ensure that the supplier retains ownership of the goods he sells to a customer until such time as he is paid for them in order that he can recover the goods if he is not paid.

A well drafted ROT clause should, as a minimum, provide that:

- title, i.e. ownership, of the goods will only pass to the purchaser when payment has been received and will not pass to the purchaser upon delivery;
- require the purchaser to keep the supplier's goods separate from other goods and clearly marked as belonging to the supplier;
- grant to the supplier the right to enter the purchaser's premises to:
  - check that the goods are being stored separately and that they are correctly labelled; and
  - if necessary, recover the goods; and
- finally, it should set out the circumstances which will trigger the right for the supplier to terminate the purchaser's rights to possession of the goods and

exercise its right to recover them (ideally the right should not only be triggered upon an insolvency event but also upon suspicion of insolvency or suspicion of the inability to pay for the goods).

Ideally, the clause should go further and provide that title to all goods it supplies shall not pass to the purchaser until all monies that are due from that purchaser have been paid. This so-called "all monies" form of wording avoids the need to identify the specific goods that relate to a specific invoice or order.

Of course, in order to rely on an ROT clause the supplier must ensure that it is incorporated into the contract for the purchase of the goods, which is an issue that has been addressed in previous editions of **insight**.

Furthermore, the supplier would be wise to make enquiries of the corporate structure of the purchaser. Many construction firms for example purchase goods via a single company, which subsequently sells those goods on to its group companies which actually use the goods. If those group companies can show that they have purchased and paid for the goods in good faith free from any retention of title and the original contracting company subsequently goes insolvent then the supplier's only claim may be as an unsecured creditor of that company.

Finally, if and when the need arises to rely upon the clause it is imperative to do so quickly, as soon as suspicions of possible impending insolvency or inability to pay arise. Once the goods are used and combined with other goods the right to recover the goods may fall away and if the purchaser goes into administration the moratorium imposed will prevent the supplier exercising its right under the ROT without a court order.

## DID YOU KNOW?

### Inventor's Compensation

Under sections 40 and 41 of the Patents Act 1977 (the "Act") employees may have the right to receive compensation in the event that they create a patented invention in the course of their duties for their employer and that invention turns out to be of "outstanding benefit" to the employer. For many years it was assumed that the hurdle of showing that the patented invention itself (and the employees' contribution to it) provided the outstanding benefit to the employer would be too great in most circumstances, given that many other factors are likely to be involved. However, recently, and for the first time since the Act came into force, two inventors have successfully relied upon these sections to obtain compensation from their employer amounting to £1.5 million between them. It remains to be seen what effect this case will have, if any, but theoretically it could pave the way for more compensation claims from employees under these sections.

*Employers would be advised to review their policies in respect of employees who are likely to create patentable inventions to ensure that appropriate compensation schemes are in place to reward those employees and limit the chances of disgruntled employees bringing compensation claims.*

### Trade Mark Rules

As of 1 October 2008, the UK Intellectual Property Office (UKIPO) has reduced the trade mark opposition period from 3 months to 2 months in a further step to speed up the trade mark registration process. This period may be extended by 1 month upon application within the initial 2 months. In the previous edition of **insight**, we reported on the change to the relative grounds objections and in addition fast track examination is available.

*Bear this in mind if you are considering filing trade mark applications or if you already have a trade mark portfolio. Trade mark owners should use effective trade mark watch services which notify them of potential conflicting marks with sufficient time to bring an opposition. We can provide you with trade mark prosecution and watch services and strategy advice.*

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