

information technology/ e-commerce bulletin



Welcome to Pritchard Englefield's information technology/e-commerce bulletin. The aim of this bulletin is to give a brief overview of some of the more significant and interesting developments in this fast-moving area.

In this April edition:

- Storms ahead for cloud computing?
- Some good news for brand owners
- Are your distribution and agency arrangements compliant with the new Competition Rules?
- News on the Digital Economy Act 2010

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STORMS AHEAD FOR CLOUD COMPUTING?

What is it?

Increasingly, computing services are available via the internet. The service provider will deliver various business applications which can be accessed from the customer's own computer equipment such as a laptop. The principle behind cloud computing is that it provides a single access point for a customer's computing needs on an "on demand" basis. The service may be of particular interest to small and medium sized enterprises (SMEs) because it significantly decreases overheads in a variety of different ways:

- reducing numbers of dedicated IT staff;
- avoiding the purchase of software which may be rarely used; and
- significant hardware is the responsibility of the service provider rather than the customer.

Data protection problems

Customers will store their data with the service provider and it is this storage and the potential for the data to be moved around that can give rise to difficulties.

Under English law, the customer would be treated as a *data controller* and as such must comply with the Data Protection Act 1988 (the Act). The service provider on the other hand would probably be treated as a *data processor* and have no specific obligations under the Act. Customers as data controllers should, therefore, be alert to their obligations under the Act. The problems that could arise include:

- Personal data should not be kept for longer than is necessary for the purpose for which it was originally collected.
- The Act gives a person whose personal data is stored by or on behalf of the data controller the right to call for that data from the data controller who must reply to such a request within 40 days. The involvement of a service provider as data processor will complicate this because the data controller will need to be sure that the data processor will provide him with the relevant information. A failure on the part of the data controller to supply the information could lead to an investigation by the UK regulator, the Information Commissioner's Office (ICO) and continued failure to supply the information could lead to heavy fines of up to £500,000 per contravention from May of this year.
- The data controller needs to ensure that there are "appropriate technical and organisational measures" in place to protect personal data.
- Personal data should not be transferred outside the European Economic Area (EU countries, Norway, Switzerland and Iceland) unless the countries in question maintain an adequate level of protection for data. According to the European Commission, this is currently true of only a handful of countries and it is imperative that data controllers know to which countries the data is being transferred. However, the main service provider may have a number of different sub-processors each delivering part of the service and each of whom may store the data in different countries. Data controllers may be inadvertently breaching the Act and the

principles established by the European Commission.

How can SMEs deal with these problems?

As the obligation to protect data falls on data controllers, they should:

- undertake comprehensive due diligence into their data processors;
- do their best to bind data processors to contracts that require them to comply with the Act and be clear about the terms on which the latter can subcontract their obligations; and
- work with data processors to ensure that they have appropriate policies in place for dealing with data protection issues and amend these to comply with changes in law and practice.

However, this is easier said than done because, typically, service providers are large entities with standard terms and conditions and will often refuse to agree to amend them for individual SMEs.

Comment

This is another example of the law lagging behind technology and there as yet is no ready solution to this problem. Various attempts are being made to draw up binding safe processor rules which, whilst they may not be wholly compliant with the Act, may at least set out what may become best practice in this area.

SOME GOOD NEWS FOR BRAND OWNERS

In English law there is a principle that once a court has ruled on a legal issue, the issue cannot be tried again in any other court or tribunal. The principle is known “res judicata” and historically it did not apply to certain types of trade mark proceedings in the UK Intellectual Property Office.

The facts

A recent High Court case, Evans trading as Firecraft v Focal Point Fires plc related to proceedings for cancellation of a trade mark registration and has changed this principle. The claimant, Firecraft, had a substantial reputation in the mark FIRECRAFT but had not obtained a trade mark registration for the mark. Under English law principles, Firecraft would only be in a position to stop others from using the same mark by bringing an action for passing off based on its goodwill and reputation.

Focal Point obtained a trade mark registration for FIRECRAFT for the same goods, fireplaces and started selling them. Firecraft brought proceedings at the Intellectual Property Office to invalidate that registration based on its passing off rights. Firecraft was successful and the registration was removed. However, Focal Point continued to sell fireplaces under the mark and Firecraft then had to issue proceedings in the High Court for passing off and included a request for an injunction. Focal Point sought to defend the claim.

The decision

The High Court agreed with Firecraft that Focal Point should not be allowed to defend the passing off claim because Focal Point had already unsuccessfully defended the claim at the Intellectual Property Office. The High Court found that it would be an abuse of process for Focal Point to file a defence.

Comment

This decision suggests that actions before the Intellectual Property Office will carry more weight and defendants will be precluded from filing a defence if they fail to stop using marks which have been successfully challenged. It is likely that the same principle will apply to other proceedings at the Intellectual Property Office such as opposition and cancellation actions. However, the downside is that the IPO in recognising the importance of this decision has changed its practice in relation to invalidation actions from reviewing the case on paper only to requiring a full hearing of both parties (where the challenge is made) with the attendant cost and administrative time that brings.

ARE YOUR DISTRIBUTION AND AGENCY ARRANGEMENTS COMPLIANT WITH THE NEW COMPETITION RULES?

For many years a body of law known as competition law (not to be confused with the law relating to competitions and gaming etc) has imposed restrictions on the ability of businesses and their distributors and agents (and others) to contract freely. Examples include a ban on price fixing and dividing up markets for goods and services thereby creating barriers to the single market of the European Union.

Adoption of new rules for distribution of goods and services

The European Commission has just adopted new rules in this area which come into force from 1 June 2010.

Principal changes:

- If you are the main distributor or retailer for particular goods and services (and this might be for a market in very specialised goods) then your agreements should be reviewed for compliance with the new rules.

- There were restrictions on the extent to which a distributor could be prevented from making sales following unsolicited enquiries from potential customers outside the territory accorded to the distributor under an agreement – so-called “passive” sales. Sales via the internet are passive sales and cannot be restricted. This means, for example, that any attempt to require the distributor either to cancel transactions or reroute online customers based outside the distributor’s territory to the website of another distributor once the customer has entered his credit card details will definitely not be permitted. The Commission has also said that it will be alert to restrictions on online sales in particular markets whilst acknowledging that some restrictions may be reasonable for other markets (where, for example, there are many competing suppliers).
- The guidelines that accompany the rules provide views from the Commission on when resale price maintenance (RPM) may be permitted. RPM arises where there is a fixed or minimum resale price imposed by the manufacturer or seller and is generally considered to be highly anti-competitive. The guidelines provide a number of examples where RPM is permitted. For example, where a manufacturer introduces a new product, RPM may encourage distributors to increase their sales efforts for a limited time after introduction of the product.

Comment

It is always prudent to review commercial agreements to ensure they comply with competition law and those who are either dominant in a particular market or engaged in online sales should be particularly conscious of the new rules. Those wishing to launch new products may require advice on when RPM is permissible.

AND FINALLY.....NEWS ON THE DIGITAL ECONOMY ACT 2010

This Act became law in April 2010 and has attracted a significant amount of criticism.

The most controversial provisions in the Act impose obligations on internet service providers (ISPs) to support the reduction of copyright infringement by monitoring traffic on their networks, and to notify users of allegations that their account has been used for unlawful file sharing. ISPs must also maintain lists of users who have received multiple unchallenged notifications. A copyright owner can seek a court order requiring disclosure of the identities of those on the lists.

If these measures prove ineffective, the Secretary of State may require ISPs to impose technical measures against serial infringers.

We plan to report on this Act in more detail in a future edition of the e-bulletin.

ABOUT US

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