NEWSLETTER

INTELLECTUAL PROPERTY, DATA PROTECTION AND IT

JUNE 2014 | ENGLISH EDITION

EDITORIAL

As it is well known, the modern economy and the phenomenon of globalisation are strongly linked to the expansion of information and communication technologies, which have caused a revision and a change in business processes and practices that had long been established and remained unaltered.

These technologies, which increase competition between companies – who have begun competing on a much wider playing field, both economically and geographically – and allow certain business players to have access to markets in ways that would previously have been impossible - due to their inability to expand their offer beyond their own national borders - have now become the basis or the *common platform* on which stands the new global economy.

However, this economic and social paradigm shift did not occur without notable costs or risks, especially with regard to the protection of privacy and of certain individual rights and freedoms.
Therefore, this special issue of our Newsletter dedicated to Intellectual Property, Data Protection and Informational Technologies, is undoubtedly pertinent. With a renewed team and a combination of different skills and expertise, we are certain that, even in this practice area, Sérvulo & Associados is up to the task of advising its Clients in accordance with the excellence and dedication patterns that constitute our identity.

Lino Torgal | Managing Partner
lt@servulo.com

THE IT OUTSOURCING CONTRACT

Rui Cardona Ferreira

IMPORTANCE AND TENDENCIES

According to data provided by the consulting company Gartner, it is estimated that in 2013 the market for IT outsourcing could have reached the impressive sum of US$288 billion globally[1].

This figure expresses the sector's tendency for growth, driven not only by the strengthening, in the production process, of the components of advanced or intensive technology, something characteristic of a modern economy, but also by the boosting effect, in this area, of globalisation itself.

In fact, the process of globalisation and the intensification of levels of competition have placed companies in challenging situations when faced with having to maintain and develop the technological competencies needed to be able to compete effectively in an expanded economic space. On the other hand, the development of information and communication technologies has allowed for small-scale companies that don't have the financial means to internally fund cutting-edge technology to be able to occupy their space in the market and compete at a global level.

Both of these referred aspects therefore contribute to many companies, to a lesser or greater extent, *externalising* the business activities that had originally been carried out with internal resources, with the aim of reducing costs and obtaining gains in terms of efficiency and competitiveness. Indeed, the pursuit of these aims has justified the growing number of outsourcing contracts executed mostly by entities located in other jurisdictions (*offshoring*), making the most of electronic communication platforms.

However, even if this tendency can be witnessed at a global scale, it is also known that some large-scale outsourcing contracts have been less successful, resulting in the return to internalising services that had previously been provided by external suppliers.

And the truth is that, as an atypical commercial contract (with no express provision or statutory regulation), often aggregating objects of different kinds, from the pure provision of services to the sale of goods, passing through services for development of software and other tailor-made technological solutions, the IT outsourcing contract is remarkably complex and can be a source of significant risks, including legal risks.

LEGAL RISKS: THE PARADIGMATIC EXAMPLE OF THE *BSKYB VS. EDS* CASE

The paradigmatic example of the legal risks that surround the conclusion and execution of outsourcing contracts – both for the client and the supplier – is the legal process, well known by people operating in the sector and often cited by the related specialised legal literature, which opposed the British media company BSkyB (British Sky Broadcasting Group plc) and EDS (Electronic Data Systems Ltd.) (in the meantime acquired by the Hewlett-Packard group). It is worth briefly remembering the details of the case.

The case consisted in the implementation of a new customer relationship management system (CRM), contracted by BSkyB to update and improve the service it provided to its clients through its various support centres. The pre-contractual phase started with the issuing of an invitation to tender addressed to several companies, EDS having consequently been the company selected by BSkyB for the provision of a specific CRM system, within a specified period and for a total estimated value of £48 million. The contracts, signed in November 2000, set out important milestones for July 2001 and March 2002, and also contained a clause limiting liability to £30 million.

However, the execution of the project didn't go according to plan, there having occurred significant delays in the conclusion of the first phase of the project, and the performance of the system falling significantly short of the requirements of the contracts. Consequently, in March 2002 BSkyB terminated the contractual relationship with EDS alleging breach of contract, and opted to conclude the project in-house, assigning the task to its subsidiary SSSL (Sky Subscribers Services Ltd). However, the project was only completed in its entirety in 2006, with BSkyB having spent a total amount of approximately £265 million.

In this context, in 2004 BSkyB started a lawsuit against EDS, alleging that, during the pre-contractual phase, EDS had given false or imprecise information with regard to the resources available to it, its effective know-how and the adequacy of the proposed methodology to meet the time and budgetary restrictions foreseen in the contract. EDS, for its part, argued that the problem arose from the imprecise definition given by BSkyB with regard to their needs and specifications of the system.

The case started in 2007 and ended only on January 26, 2010 with a decision by the High Court, which considered that EDS had breached its duties when it affirmed before BSkyB, in the pre-contractual phase, that it had carried out a full analysis of the time needed to complete the project and that it had the means to complete it. The court also considered that EDS had been in breach of the contract.
Taking into account that EDS had misled BSkyB, the court disregarded the clause limiting the liability of the contracted entity (£30 million, as referred above), having EDS been condemned by the Technology and Construction Court – following the decision of the High Court – to pay £200 million.

In spite of the details and of the grounds of this legal decision not being able to be completely transposed to Portuguese Law, the case is revealing of the need for the pre-contractual phase of outsourcing contracts to be carefully followed from a technical and a legal point of view, both on the side of the client and of the supplier. Moreover, this case highlights the demands surrounding the drafting of the outsourcing contracts and the need for a previous evaluation of the validity of some legal solutions included therein, namely in what concerns the application of fines and the limitation of liability.

BRIEF ANALYSIS OF THE COPYRIGHT LAWS OF THE PORTUGUESE-SPEAKING AFRICAN COUNTRIES (PSAC)

Patrícia Akester

FROM AN INTERNATIONAL LAW PERSPECTIVE

While Angola, Cape Verde and Mozambique have relatively recent copyright laws, dating back to 1990, 2009 and 2001, in Guinea-Bissau and São Tomé and Príncipe the colonial Copyright Code of 1966 does not seem to have been replaced.

Furthermore, Angola, Cape Verde, Mozambique and Guinea-Bissau (unlike São Tomé and Príncipe) are member countries to the TRIPS Agreement, which requires the adoption of the precepts stemming from the Berne Convention, except in connection to moral rights – an American conceptual preference.
In spite of a general theoretical prevalence of international copyright principles originating in

[1] Cf. *www.gartner.com/newsroom/id/2550615.*

those agreements, the copyright law approach of the PSAC does not comply with the most recent trends in the field.

As regards, the term of protection, the Berne Convention and the TRIPS Agreement establish a minimum term of protection of fifty years *post mortem auctoris*, which has been integrated into the copyright laws of Angola and Cape Verde. Mozambican law, however, has not opted for such a minimum standard as regards the term of protection but for a general term of protection of seventy years *post mortem auctoris*. This is hard to understand since the adoption of a minimum term of protection of fifty years *post mortem auctoris* would have enabled works to fall into the public domain twenty years earlier, thus facilitating access to information, culture and knowledge.

With regards to the digital agenda, the PSAC have not, until now, ratified the WIPO Copyright Treaty or the WIPO Performances and Phonograms Treaty, so that the copyright laws of the PSAC do not prohibit the infringement of technological measures for the protection of copyright.

COMPARISON WITH PORTUGUESE LAW

Unlike Portuguese copyright law, Angolan law does not cover neighbouring rights. It goes, nevertheless, further than Portuguese law in the context of authors' moral rights. Indeed, Angolan law gives the author not only the traditional Berne paternity and integrity rights but also the right to withdraw the work from circulation and the right to not publish the work.

Things should soon change, though, as a Bill was recently presented before the Angolan Parliament attempting to fill several gaps in the current ccopyrigt legal frame. The bill establishes, for example, the protection of: (i) computer programs as original works, (ii) the economic rights of producers of databases, (iii) the right to one's image and (iv) technological measures for the protection of copyright and related rights. Hence, the proposal addresses current digital issues and increases the level of protection granted by the current Angolan copyright law.

As to Cape Verdean law, it contains several principles of protection connected to the digital agenda, such as, the protection of computer programs and databases, the resale right, the right to make a work available on demand and an exception pertaining to acts of automatic and transient copying carried out by service providers.

Additionally, Cape Verdean law is more far-reaching than Portuguese law in the context of moral rights, granting authors the paternity and the integrity rights, as determined by the Berne Convention, but also the right to withdraw a work from circulation, the right to not publish a work and the right to have access to the sole or rare copy of a work for certain purposes.

Moreover, Cape Verdean law grants the author of a computer program the right to prevent any modification of a program by an assignee of rights when said modification is deemed harmful to the author's good name, reputation or honour - a principle that is not present in Portuguese copyright law.

It should also be noted that with regards to parody, pastiche and caricature, Cape Verdean law, quite sensibly, has decided to not follow Portuguese law, which sets these uses not as exceptions to copyright but as intellectual creations, while the solution of the Cape Verdean law removes the legal uncertainty regarding the legitimacy of such uses - by classifying them as copyright exceptions.

Finally, Mozambican law contains several principles set in the TRIPS Agreement, including the protection of expression as opposed to mere idea, a term of protection of seventy years *post mortem auctoris*, the protection of computer programs and also the protection of performers, producers of phonograms and broadcasting organisations.

Lastly, it should be highlighted that, while Portuguese law appears to not allow the State to defend the paternity rights of authors whose works have fallen into the public domain, the Angolan copyright law declares that all moral rights relating to works that have entered the public domain are to be exercised by the Secretary of State for Culture, the Cape Verdean copyright law allows the State to generally defend moral rights relating to works that have entered the public domain and the Mozambican copyright law allows, upon the author's death, the State to perpetually and generally defend moral rights pertaining to a work.

CONCLUSION

One can conclude that, in the realms of copyright, albeit the existence of a few legislative gaps that need to be addressed, as well as some uncertainty as regards the level of enforcement of the legislation in question, in particular given the absence of information relating to court cases, there are signs of solid copyright legislation in the PSAC. It should also be noted that, in terms of legislative architecture, the Portuguese code falls short of that legislation on a number of topics.

THE TRANSFER OF PERSONAL DATA TO THIRD COUNTRIES

Duarte Rodrigues Silva
David Silva Ramalho

The internationalisation of the companies' commercial activities combined with the dematerialisation of transnational information streams raises new challenges regarding data protection in the European Union (EU) and has created the need to adopt measures to conciliate the limits of national jurisdiction with the structure of the Internet.

Quickly it has become clear that the transfer of personal data between States providing different levels of data protection would undermine the efforts of the State that provides the highest level. For this reason, the legislator created a system that protects the data subjects' right to informational self-determination in the context of transnational transfers of data.

Starting from the general principle of lack of freedom in the transnational transfers of personal data, the rules in force only allow for those transfers to be made provided that the receiving country ensures an *adequate level of data protection*, i.e. similar to the level applicable in the EU (being up to the European Commission (EC) or the Portuguese data protection authority (CNPD - *Comissão Nacional de Proteção de Dados*) to verify the adequacy of the level of data protection within third countries). In the event that a third country does not ensure said *adequate level*, the transfer of data can still be authorised if some conditions that are exhaustively provided for in the applicable statutes are met, *e.g.* in cases where data subject has given his consent unambiguously to the proposed transfer or where transfer is necessary for the conclusion or performance of a contract concluded in the interest of the data subject.

But even outside those strict situations, data transfer to third countries may still be allowed in the following two cases: *(i)* the transfer of data to the US when companies based there are covered by the Safe Harbor Agreement; *(ii)* when the *adequate level of protection* is met under *ad hoc* contractual clauses or under standard contractual clauses previously approved by the EC.
With regard to the first case above, the fact that the USA were qualified as a country that does not offer by itself an *adequate level of protection* caused obstacles to commercial relations between companies based in the US and those based in the EU. It therefore became necessary to reach an agreement that would establish a *safe harbor* to allow the transfer of personal data to American companies. On July 26, 2000, the EU – following Opinions 14/2000 and 17/2000 of the CNPD – decided that *(i)* companies subject to the jurisdiction of the Federal Trade Commission and *(ii)* air carriers and ticket agents for passenger airlines subject to the jurisdiction of the US Department of Transportation could adhere to the Safe Harbour Agreement, thereby being considered as offering an an *adequate level of protection*.

As for the second case above, apart from the cases where *ad hoc* contractual clauses are combined with mechanisms that guarantee the protection of personal data (to be verified by the CNPD in Portugal), Article 26, para. 4, of Directive 95/46/EC of the European Parliament and of the Council, of 24 October, 1995, currently in force, provides for the possibility of the EC approving standard contractual clauses that ensure the same level of protection rendered in the EU. Further to this provision, Decisions 2001/497/CE and 2010/87/UE established these clauses. Restrictive interventions of national data protection authorities facing previously approved standard contractual clauses were hence relegated to exceptional situations under which it is concretely justified to not allow the transnational transfer of data, assuming a general principle of admissibility outside those exceptional situations. Notwithstanding, when data transfers to third countries are performed under these clauses, the CNPD, in accordance with its Interpretative Rule of 29/11/2004, still considers that, while said transfers are not subject to a previous CNPD authorisation, it is up to the CNPD to verify the conformity of the applicable contractual clauses to the standard contractual clauses approved by the EC.

Finally, if the recently submitted proposal for an European Parliament and Council Regulation on the protection of individuals with regard to the processing of personal data and on the free movement of such data (General Data Protection Regulation - COM(2012) 11 final) enters into force without changes, on the one hand it will become unnecessary to obtain the previous authorisation of CNPD for the transfer of personal data to third countries (or territories therein) that offer an *adequate level of protection* (as acknowledged by the EC), and, on the other hand, in cases where the State receiving the personal data does not offer the required guarantees, the controller or processor will be able to take measures to compensate the lack of data protection within its country *e.g.* by approving binding corporate rules for its international data transfers, which are currently considered incompatible with Portuguese Law by CNPD.

THE DECLARATION OF THE INVALIDITY OF DIRECTIVE 2006/24/EC: PRESENT AND FUTURE OF THE RETENTION OF DATA BY PROVIDERS OF ELECTRONIC COMMUNICATION SERVICES

David Silva Ramalho
José Duarte Coimbra

On April 8 of this year, the European Court of Justice declared to be invalid Directive 2006/24/EC, on the retention of data generated or processed in connection with the provision of publicly available electronic communications services or of public communications networks and amending Directive 2002/58/EC – the directive in question having been transposed into Portuguese law by Law no. 32/2008, of July 17.

This Directive aims to harmonise the provisions of Member States concerning retention of data for the purposes of investigation, detection and prevention of serious crimes. To this end, the Directive imposes on Member States the implementation of measures aimed at guaranteeing the availability, for a period of between 6 months and 2 years, of traffic, location and other related data.

The sensitivity of the matter, representing, in the words of the Court, *"an interference with the fundamental rights of practically the entire European population"*, resulted in several declarations of unconstitutionality of norms that had emerged from the transposition of said Directive in countries like Bulgaria (2008), Romania (2009), Germany (2010), Cyprus (2011), and the Czech Republic (2011).

It was in this context that, in 2012, following preliminary rulings from Ireland and Austria, the Court was asked to rule on the validity of the Directive in the light of European Union law.

Recognising the importance that the fight against serious crime has for guaranteeing public safety, the Court of Justice concluded that the importance of these mechanisms, in matters of criminal investigation does not justify the imposition of measures of this kind, without any subjective, geographic or temporal restrictions, on such a wide range of people.

The Court of Justice therefore decided on the invalidity of the Directive based on the violation of the right to privacy and to the protection of personal data, and on the violation of the principle of proportionality.

In spite of this decision, and because it was issued in the context of a preliminary ruling, thereby not translating into a *generally binding statement*, the referred Directive remains, at least formally, in force. And, similarly, the decision of the Court of Justice does not affect the validity of Law no. 32/2008, since the validity of national legislative acts can only be assessed by national courts.

However, this decision is not devoid of all practical effects in Portugal. The fact is that, as is the case with the jurisprudence of the Court of Justice, the decisions made in preliminary rulings are *good enough reason for any judge to consider the act invalid for the effects of a decision he/she must make*. Therefore, the norms mentioned in the Directive that have now been considered as not conforming to European Law are covered by a duty of non-application on the part of national judges.

In any case, it is likely that this Directive will be revoked, and that, consequently, it is Member States who will have to adapt their national law on this matter.

In conclusion: the decision of the Court of Justice that has been covered in this text is the *starting point* for nothing to remain as it has been until now in this area. Therefore, this matter requires attention and supervision, especially on the part of companies operating in the telecoms sector.

RUI CARDONA FERREIRA
rcf@servulo.com

SÉRVULO partner since January 2014, Rui Cardona Ferreira is a doctoral candidate at the Faculty of Law of the Nova University of Lisbon. He has relevant experience in the area of information technology, especially in what concerns advising public and private entities on the acquisition of IT equipment and on finding tailor-made complex technological solutions (including software development), as well as advising on finance and operating lease agreements and on leasing and operating contracts.

DUARTE RODRIGUES SILVA
drs@servulo.com

Associate at **SÉRVULO** since 2008, Master in Law in the field of legal-administrative sciences from the Faculty of Law of the University of Lisbon. He has acted on several mandates in administrative law and in the areas of Intellectual Property and Data Protection.

PATRÍCIA AKESTER
pa@servulo.com

Of Counsel at **SÉRVULO** since 2011, PhD in Copyright from Queen Mary University of London, Patrícia Akester has developed her whole professional activity in the area of intellectual property. She has already published two books on the subject as well as dozens of articles.

DAVID SILVA RAMALHO
dsr@servulo.com

SÉRVULO associate since 2013, David Silva Ramalho completed a post-graduation course in IP Law and in Cyber security Law at the Faculty of Law of the University of Lisbon, where he is currently preparing his master's thesis in Legal-Criminal Sciences on the theme of digital evidence. He has relevant experience in industrial property, both in the administrative phase and in disputes, as well as in data protection and information technology, areas where he has mainly focused on advising private entities on the development of compliance policies.

Sérvulo & Associados | Sociedade de Advogados, RL

Rua Garrett, 64
1200-204 Lisboa **| Portugal**
Tel.: (+351) 210 933 000
Fax: (+351) 210 933 001/2
Email: geral@servulo.com
Site: www.servulo.com