

Full time for unauthorized merchandising

After four years, the much-debated *Arsenal v Reed* case has been resolved in favour of the brand owner. Justin Watts and David Brooks examine the decision and, below, specialists in different countries explain the impact of the case in Germany, France, Benelux, Spain, Italy and on OHIM

The *Arsenal* decision is welcome news for all trade mark owners, in particular those involved in the fields of sports and entertainment merchandising. The decision has defined a new test for trade mark infringement in the UK and it appears that the ECJ has moved to harmonize the boundary of trade mark infringement to the benefit of trade mark owners in most jurisdictions.

Background

Like all Premier League clubs and many other sporting organizations, Arsenal Football Club derives substantial revenues from merchandising sports goods and memorabilia bearing the club's registered trade marks. In 1989 Arsenal registered the marks Arsenal and Arsenal Gunners, and also registrations covering Arsenal's cannon and shield emblems. These trade mark registrations covered articles of clothing, sportswear and footwear.

Matthew Reed is an Arsenal fan and street trader who has, for the past 30 years, sold Arsenal football souvenirs from a stall outside Arsenal's stadium at Highbury in north London. A sign on Reed's stall states that the goods he sells are unauthorized and do not indicate any relationship with Arsenal Football Club. Arsenal has taken steps to protect its interests by urging its fan base to buy only official Arsenal merchandise from authorized vendors and by taking action against vendors selling unofficial Arsenal merchandise. In January 1999 Arsenal sued Reed for passing off and trade mark infringement.

The High Court referral

The case first came before Mr Justice Laddie in the High Court in April 2001. Laddie ruled that the passing off claim failed, as Arsenal had failed to prove any evidence of confusion. On the issue of trade mark infringement, Laddie held that Reed had not infringed Arsenal's trade marks. In



Justin Watts



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his judgment, the marks were not being used in a trade mark sense (that is, to indicate the origin of the goods), but rather as badges of support or loyalty to Arsenal. This is how, he said, the marks would be perceived by consumers. It is not clear whether Reed raised a defence of delay or acquiescence in relation to his use of the Arsenal marks, although he did give evidence that he had sold his goods within Arsenal's ground for 15 years and had been invited to do so by stewards. Laddie dismissed this issue as being of "little consequence" and did not consider it further.

In addition to his findings of fact, Laddie made a preliminary reference (under Article 234 of the Community Treaty) to the European Court of Justice (ECJ) on the interpretation of the Trade Marks Directive. In summary he referred the questions:

- 1) Is trade mark use required in order to establish infringement?
- 2) If so, is use as a badge of support, loyalty or affiliation use in a trade mark sense?

The ECJ ruling

The ECJ issued its decision on November 12 2002. It

Timeline

- January 1999 - Arsenal commences proceedings against Reed in the UK for trade mark infringement and passing off
- April 2001 - First decision of the UK High Court – Mr Justice Laddie refers the question of trade mark use to the ECJ
- June 2002 - Preliminary Opinion of Advocate General Colomer
- November 2002 - Decision of the ECJ
- December 2002 - Second decision of the UK High Court – Laddie refuses to implement the ECJ’s ruling but grants Arsenal leave to appeal
- May 2003 - Decision of the UK Court of Appeal – decision in favour of Arsenal. The decision over whether leave to appeal to the House of Lords will be granted is still pending

concluded that, in the circumstances of the case, Reed’s use of the marks infringed Arsenal’s registered marks. In arriving at this conclusion, the ECJ confirmed that the essential function of a trade mark is to guarantee to consumers the identity of the origin of the goods. A trade mark owner can prevent use of the mark which is liable to affect the functions of the trade mark, in particular its essential function of guaranteeing to consumers the origin of the goods. The ECJ did not appear to go quite as far as the wide view of the function of a trade mark that the Advocate General’s opinion had proposed. The Advocate General stated that it would be wrong to limit the function of a trade mark solely to trade origin, as a trade mark is also capable of indicating the reputation of its proprietor and the quality of the goods to which it is applied. The Advocate General considered that these other functions should also be protected. The ECJ appears to recognize that a trade mark has functions in addition to the guarantee of origin function, although it did not comment on these additional functions.

The ECJ held that use of the Arsenal marks on Reed’s goods created the impression that there was a material link between the goods and Arsenal, despite the presence of the sign to the contrary on Reed’s stall. As a result, there was a possibility that some consumers, especially those who came across the goods in a post-sale context, would think that the goods were official Arsenal products. The essential guarantee of origin function would therefore be jeopardized. In the ECJ’s view it was immaterial that the mark was perceived as a badge of support for, or loyalty or affiliation to, the trade mark proprietor.

Back to the High Court

In implementing the ECJ’s judgment, Laddie held that the ECJ had exceeded its jurisdiction. The ECJ’s conclusion that Reed’s use of the marks was liable to jeopardize the guarantee of origin of the goods “in circumstances such as the present case”

was inconsistent with Laddie’s original finding that the use made by Reed was not perceived as indicating trade origin.

Laddie pointed out that it was the ECJ’s remit to interpret questions of law, not fact. He applied the ECJ’s ruling of law to his own original finding of fact and found for Reed, ruling that there was no infringement. He did however grant Arsenal leave to appeal.

The Court of Appeal

On May 21 2003, Lord Justice Aldous, giving judgment for the Court of Appeal, overruled the High Court decision, and held that Arsenal’s trade marks were infringed by Reed’s use of the marks.

The Court of Appeal disagreed with Laddie’s conclusion that the ECJ had exceeded its jurisdiction. Aldous explained that, for the ECJ, the relevant consideration was not whether the use was “trade mark use” but whether the use *was likely to jeopardize the guarantee of origin function of the mark*. The ECJ’s conclusion that Reed’s use did jeopardize this function was a finding of fact, but one which was inevitable in the circumstances. This finding did not contradict Laddie’s conclusion that Reed’s use was not use in a trade mark sense. Laddie had not considered whether use of the marks on the goods was “likely to jeopardize the guarantee of origin”. Laddie’s finding that the trade marks were perceived as badges of support did not mean that the function of guaranteeing origin was not compromised; on the contrary, unchecked use of a mark, which is not use in a descriptive sense, would be likely to damage the essential function of the trade mark because it would no longer be capable of guaranteeing origin.

Although it was not considered to be a relevant factor, the Court of Appeal then went on to re-consider whether Reed’s use of the marks did actually constitute “trade mark use”. It overruled Laddie, concluding that use of the Arsenal marks by Reed did denote origin, particularly in the after-sales context, and therefore amounted to trade mark use.

Interestingly, the Court of Appeal regarded the presence of the notice on Reed’s stall as confirmation that the word Arsenal does carry with it an indication of origin; otherwise Reed would not have felt the need to display a notice. This illustrated how a disclaimer may cut both ways. Laddie referred to the existence of Reed’s notice as an element in concluding that there was *no* confusion in the passing off claim; the Court of Appeal viewed the presence of the sign as an element in establishing trade mark infringement. Vendors of unauthorized merchandise are left with an unenviable decision between ensuring that customers are properly informed and thus not confused, without providing ammunition for a charge of trade mark infringement.

European perspectives

United Kingdom

The *Arsenal* decision is welcome news from the perspective of brand owners in general, not just those involved in sports merchandising. The decision strengthens the civil

remedies available to trade mark owners to prevent unauthorized use of their marks.

The ECJ decision appears to impose a new standard for trade mark infringement in the UK – whether use is *likely to affect or jeopardize the trade mark's guarantee of origin function*. In principle, this renders the question of “trade mark use” irrelevant, but substitutes a new test in its place. However, it is difficult to see how in practice this new test is significantly different.

The Court of Appeal illustrates the point. It distinguished between the two tests in its reasoning, but ultimately concluded that Reed's use of the Arsenal marks constituted (1) use which jeopardized the guarantee of origin function and also (2) use in a trade mark sense.

The difficulty in identifying the boundary between the two tests was highlighted in a House of Lords decision handed down the day after the Court of Appeal ruling in the *Arsenal* case. In *R v Johnstone*, the House of Lords was concerned with criminal infringement actions over bootleg records. Although not directly on point, *Johnstone* interprets the ECJ decision in *Arsenal* as establishing that non-trade mark use will not constitute trade mark infringement, which is essentially the same conclusion as that reached by Laddie in the High Court in the *Arsenal* case.

The ECJ ruling in the *Arsenal* case confirms that the essential function of a trade mark is as a guarantee of origin. It remains unclear from the UK cases (1) whether the other functions of a trade mark identified by the Advocate General (that is, reputation of the proprietor and the quality of the goods) should also be protected and (2) under what circumstances merchandise is not likely to jeopardize or affect the essential function of the mark.

It is arguable that the difference between the old test and the new is, in fact, not a difference in theory, but simply a reassessment of the boundary under the old test. The divergence of view between the High Court and the ECJ may have its origins in the historical development of trade mark law in relation to merchandising activity in the UK, under the Trade Marks Act 1938. The 1938 Act did nothing to encourage merchandising. It did not recognize merchandising activities as a valid basis for applying for or supporting a trade mark, and there was a statutory prohibition on “trafficking in the mark” which tended significantly to limit trade mark licensing for merchandising purposes. As a result, the general judicial climate was unfavourable to merchandising – as illustrated in cases such as *Elvis Presley TM*. It is therefore to be expected that, in applying the new rules under the Trade Mark Directive and 1994 Act, the UK judges should read and interpret the new rules against a background of hostility to merchandising.

The High Court's decision not to implement the ECJ's ruling raises questions over whether: (1) the ECJ had exceeded its jurisdiction in making a finding of fact which was different to that found by the national court; and, if it did so, (2) the circumstances under which a national court can refuse to enforce a ruling of the ECJ. These issues appear to have been pragmatically side-stepped by the

Practical advice for trade mark owners

- Trade mark owners should consider whether additional protection through design right or copyright would be applicable to their marks (see box).
- Brand owners should use their registered trade marks on all labels and tags which are attached to goods and on the packaging in which goods are sold in order to demonstrate that the marks are being used as indicators of origin.
- Marks may be open to attack if they are not sufficiently distinctive or if they become generic. For example, the Rugby Football Union recently lost its classic rose trade mark in a case against Cotton Traders Limited on the ground that the rose mark was not perceived by members of the public as denoting the manufacturer of the shirt to which it was applied.
- Owners of trade marks with low distinctiveness, such as shapes, colours and marks that are made up of purely descriptive elements, should seek to build the distinctiveness of such marks through enforcement and marketing measures that are tailored to address any perceived weakness in the marks.
- Owners of trade marks might rely on the fact that an act, left unchecked, might damage the validity of their mark as evidence of infringement.
- Brand owners should be advised that any reluctance to take action against trade mark infringements may affect the future ability of a mark to serve as an indication of origin and may be prejudicial to attempts to enforce the trade mark in future cases.

Court of Appeal ruling, which interprets the ECJ decision as not making a finding of fact, other than that which logically results from interpreting the question of law.

Germany

The approach of the German courts to trade mark infringement in similar circumstances is broadly in line with the approach adopted by the ECJ and the UK Court of Appeal in the *Arsenal* case.

Under German law, trade mark use has been a requirement to establish trade mark infringement. The use of a sign must serve – among other aims – to distinguish the goods or services of one undertaking from similar goods or services of other undertakings in the course of trade. On the issue of trade mark use a German court would ask whether an average consumer would understand the sign as indicating the origin of the goods. In practice, trade mark use is easy to establish, provided that it is “not totally unlikely that more than an irrelevant part of the customers perceives the sign as a characteristic feature to distinguish the marked goods from someone else's goods”. Trade mark use will be assumed where goods are marked with signs identical to a registered trade mark, although this assumption is rebuttable where a defendant is able to supply evidence that customers do not perceive the sign as indicating the origin of the goods.

Although the issue of trade mark use has been settled in German trade mark law for several years, and brand owners already enjoy the protection now recognized by the

Arsenal's new logo and crest - three-fold protection

- It is notable that Arsenal redesigned its logo and crest. It is a matter of speculation whether this is attributable to the uncertainty surrounding this case and the risk that Arsenal would not be able to rely on its marks. However, both the new crest and the new stylised Arsenal name are the subject of trade mark and registered design applications and, as new artistic works, will also be protected by copyright. It can be assumed that Arsenal has taken steps to ensure that it has a clear chain of title to copyright in the new crest.
- If Arsenal's previous badge logo and name had been protected by registered designs, or Arsenal had proved ownership in the copyright of the images which it had registered as trade marks, there would have been no requirement to prove trade mark use. It may be that, in future, Arsenal and other brand owners will rely



The old Arsenal logo

on registered design right or copyright protection to deal with unofficial merchandise. Traders may of course try to avoid this by "tweaking" the logos/names



The new, redesigned, logo

to differentiate them from the registered designs or copyrighted work. It remains to be seen what approach the courts will take in relation to these cases.

ECJ, brand owners should be advised that any reluctance to take action against trade mark infringements may affect the future ability of a mark to serve as an indication of origin and may be prejudicial to attempts to enforce the trade mark in future cases.

Unchecked use by a third party of a sign which is identical or similar to a registered trade mark may dilute a registered trade mark as the trade mark may lose its distinctiveness and its ability to serve as an indication of origin. A defendant may be able to prove that their use of the trade mark is not trade mark use where it can be proven that the registered trade mark has become generic.

This is of particular importance for trade marks with low distinctiveness, such as shapes, colours and marks that are made up of purely descriptive elements. Brand owners should therefore seek to build the distinctiveness of such marks through enforcement and marketing measures that are tailored to address any perceived weakness in the mark.
Matthias Koch and Kristina Kersten

France

Under French law, trade mark infringement is construed very broadly as any "infringement of the rights of the owner of a mark". Under French law, even the mere filing of a trade mark, without any further use, may constitute per se an act of infringement.

The use of a trade mark as a commercial or a corporate name is also prohibited even where such use would not be considered, strictly speaking, as being use "as a trade mark". In the same manner, the reproduction of a trade mark in a dictionary or a newspaper article is likely to be

judged as infringing when such use is generic and accordingly likely to affect the validity of the trade mark. This is an approach that finds support in the ECJ's judgment: uses of a trade mark that might affect its validity are "likely to affect or jeopardize the trade mark's guarantee of origin function". This was, notably, a point that was not addressed in the Court of Appeal in the UK.

Traditionally, the French courts have protected trade mark owners and have struck out defences based on the idea that the alleged infringing use was not perceived as trade mark use by the public, but as parody. When, on recent occasions, French courts have opined, on freedom of expression grounds, that parodical use of trade marks was not necessarily infringing use, it was only because the uses at issue did not occur in the course of trade and could not in any way affect the guarantee of origin function.

A French court is likely to consider any defence based on the idea that the public is perfectly aware that the product does not originate from the trade mark owner as being immaterial. Insofar as the use of the sign at issue is likely to affect the guarantee of origin function, the trade mark owner must be in a position to prohibit it. What is material, in any case, is that the defendant is trying to attract customers by selling products bearing the identical, or similar, sign to the registered trade mark, regardless of the perception of customers.

Applied to the facts at issue in the *Arsenal* case, this means that French courts would almost certainly have struck out Reed's defence without any need to refer the case to the ECJ.

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Benelux

Under Benelux law, a trade mark owner may prevent not only use for goods but also “any use in the course of trade, without due cause, of a mark or similar sign in any way other than to distinguish goods where such use takes unfair advantage of or is detrimental to the distinctive character or the repute of the mark”. The Benelux Court of Justice (BCJ) has ruled that the distinction between use of a registered trade mark “for goods” and use “other than to distinguish goods” depends on the perception of the public. A mark will be considered to be used for goods if the public perceives the use of the trade mark as relating to specific goods or services, traded or offered by a business, which are, through use of the trade mark, distinguished from those of third parties. Any other use will be use other than to distinguish goods.

In the *Arsenal* case, the ECJ seems to have taken a different line to that typically followed by the BCJ, by holding that any use of an identical trade mark on identical goods which are subsequently offered for sale will be use “for goods” regardless of how the public perceives that use.

The *Arsenal* decision may be of practical benefit to CTM owners who cannot rely on Benelux law, as it may make it easier in the future to establish trade mark infringement. To take a recent example, the Court of The Hague recently held that the owner of a CTM for the mark TELE-TUBBIES could not prevent the use of that mark on third party merchandise. It held that such use was not trade mark use, since the sign was not being used to indicate the origin of the goods. It was considered merely as a decoration, enhancing the attractiveness of the goods in question (in a similar fashion to Laddie’s “badge of allegiance” in the *Arsenal* case). In the light of the ECJ judgment in *Arsenal*, it would appear that the question of trade mark use would not be relevant, and the TELE-TUBBIES case and cases similar to it would in future be decided in favour of the trade mark owner.

Moreover the ECJ’s judgment in the *Arsenal* case confirms that the post-sale situation is a relevant factor to be considered in trade mark infringement actions. The approach of Dutch courts in the past has been to take into account only those circumstances that could be of influence to the consumer’s decision to purchase. However, in light of the *Arsenal* case it would appear that the likelihood of post-sale confusion is a factor which should be considered by the court.

Hub Harmeling and Jeroen van Hezewijk

Spain

Under Spanish law a trade mark proprietor may choose between initiating civil or criminal action against an infringer of a registered mark. In a factual situation similar to that in the *Arsenal* case, a Spanish trade mark owner would normally elect to initiate criminal action.

Under the 1995 Spanish Criminal Code the reproduction, imitation, modification or use of any sign similar or identical to a registered trade mark is illegal. In order to prove liability it must be proved that the infringer knew that the mark was registered and the infringement in ques-

Trading Standards - A more bullish approach in the future?

- Arsenal was forced to pursue a civil suit against Reed as the Trading Standards officers in the London Borough of Islington, in which Highbury is located, were unwilling to launch criminal proceedings. Reed had been the subject of a number of “sting” operations in the past conducted by undercover Trading Standards officers, which involved the purchase of unofficial goods from Reed’s stall. However, the purpose of these operations was not to test for criminal trade mark infringement, but to determine whether Reed was misrepresenting unofficial goods as official merchandise (effectively the same test as for passing off). Laddie was not satisfied on the evidence before him that Reed had passed off his goods as Arsenal’s. Now that the legal position is clarified, it may be that Trading Standards officers in the UK and enforcement officials in other European member states may follow the Spanish approach and be prepared to take a more bullish approach to trade mark infringement in unofficial merchandising cases.

tion must be serious in nature (there is a general view that the criminal law should only be applied in cases where civil law cannot satisfy the public interest and the particular interest of the claimant). Under Spanish law, criminal claims involving merchandising have usually been decided in favour of the trade mark holder.

The Spanish Trade Mark Act 2001 (*Ley de Marcas 17/2001, de 7 de Diciembre*) does not impose any requirement that use be “in a trade mark sense” in order to establish infringement. A trade mark owner has the right to prevent a third party from using its registered marks for any use which is recognized as a trade mark function. Spanish courts have recognized that in addition to a purely distinctive function, trade marks also function as an indicator of origin, an indicator of quality and as recipients of goodwill. In practice it would be difficult to convince civil courts that use of registered trade marks in a manner similar to Reed’s use in the *Arsenal* case would not constitute trade mark infringement.

Under Spanish law the use of unregistered marks or signs (for example, the use of colours giving the appearance that a particular product has some link with a particular football club) in unauthorized products can also be prevented through other civil remedies as well as by filing a criminal claim (which would be the usual way to proceed). The use of a trade mark by a third party as an indicator of the quality of the goods to which it is applied or which takes unfair advantage of the goodwill in the mark could also be prevented through civil measures under the Spanish Unfair Competition Act.

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Italy

To establish infringement under Italian law a trade mark must be used by a third party in a way which creates a likelihood of confusion with other trade marks in the minds of

the public or which in any way deceives the public, in particular as to the type, nature, quality and/or geographical origin of the goods or services being offered because of the way or the context in which the trade mark is being used.

There is no definition under Italian law of trade mark use and it is therefore for the court to determine the question of trade mark use on a case-by-case basis. Italian case law has developed in line with the ECJ's reasoning in the *Arsenal* case, in that the basic function of trade marks is to guarantee the identity of origin of the marketed goods or services. Under Italian law a trade mark proprietor is granted absolute protection against any usage by a third party of marks or signs on identical goods or services, or goods and services which have similar channels of distribution or compete in the same target market, which are considered confusingly similar to that trade mark. The proprietor is able to prohibit that third party's use. However, registration of a sign as a trade mark where that sign is similar or identical to an existing trade mark will not in itself constitute sufficient commercial use of the sign to establish infringement.

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OHIM (and implications for registration practice)

As infringement cases are decided by national courts on the basis of national law (for national trade marks) or community law (for CTMs) and do not directly involve OHIM, the *Arsenal* decision will have no direct consequences on

OHIM's trade mark practice. However, the decision may have an indirect effect, specifically with regard to the question of whether a trade mark has been genuinely used by the trade mark owner.

Laddie's reasoning in the High Court (which was substantially overruled by the Court of Appeal) suggests that use of the Arsenal logos on scarves, hats and other clothing memorabilia (rather than use of the logo on tags inside the clothing items) will not constitute trade mark use. This is unlikely to be of relevance for the registration of new marks, as OHIM is not called upon to judge the way in which the trade mark is to be used in the future. However, this may well be relevant when a third party seeks to rely on the trade mark owner's non-use of the mark in opposition proceedings or in action for cancellation of a registered trade mark. This would be of particular concern to brand owners whose only use of their registered marks is as a decorative element – for example for merchandising purposes.

The trade mark owner has to show his use of the trade mark is genuine use. This necessitates that the goods in question are themselves offered under the trade mark. According to OHIM's settled case law the sign has to be used as an identifier in order to distinguish the goods and services from other goods and services. OHIM has previously pointed out that use of articles for promotional purposes does not constitute proof of the actual use of the mark in trade. It has to be noted, however, that OHIM's decision concerned a trade mark not registered for the offered promotional goods. This reasoning is therefore not necessarily applicable where the trade mark in question covers goods offered as merchandising articles. The *Arsenal* decision suggests that the question of whether the goods are promotional goods or merchandising goods should not entail a different treatment in prosecution.

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Harmonizing the boundary of trade mark infringement

The *Arsenal* decision has defined a new test to replace "trade mark use" in the UK. The relevant question is now whether use is *likely to affect or jeopardize the trade mark's guarantee of origin function*.

In some cases (adopting established French thinking), this may mean that behaviour that might jeopardize a mark's validity (for instance by tending to make the mark generic) would now be considered infringing.

In most cases, though, there may be little difference in theory between these tests. The difference in practice is more marked – it appears that the ECJ has moved to harmonise the boundary of trade mark infringement, to the benefit of trade mark proprietors in most jurisdictions.

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