

## HAVE YOU AGREED TO LIMIT YOUR IP RIGHTS?

The relationship between the existence of Intellectual Property rights and their exercise has long been a key theme of European Competition Law. A recent Decision of the UK Court of Appeal sounds a cautionary note for trade mark owners who enter restrictive arrangements which breach EU Competition Law and then try to enforce the rights in the marks against infringers.

The case involved the trade mark STONE ISLAND for clothing. The complainant was the trade mark owner (and manufacturer of the goods). In a joint action with its UK distributor they sought to prevent import and sale of branded goods obtained by the Defendants from an unspecified source within the European Union (allegedly a supplier based in Italy).

To prevent such parallel imports, the trade mark owner had put sophisticated garment codes on the clothing, on labels and swing tags, designed to enable onward tracking of the products. These codes had been removed from the imported goods, creating an impression which the complainant said was detrimental to its overall goodwill and reputation in the STONE ISLAND brand.

The trade mark owner argued that they were entitled to oppose the subsequent import and resale in the UK by the defendants because of this defacement of the garment labels, which gave them a legitimate reason for invoking their

trade mark rights despite the "free movement" provisions under EU law, specifically Articles 28 and 30 of the Treaty of Rome ("the EC Treaty").

The defendants argued that the trade mark owner's use of the garment codes formed part of an illegal arrangement with their UK distributor which had the object of distorting competition within the EU, contrary to Article 81 of the EC Treaty. It appeared that the trade mark owner had entered a number of exclusive distribution agreements with different local distributors, and was using the garment codes as a means of controlling the supply of goods to such distributors. The Defendants argued that this amounted to an illegal attempt to partition the European market and that there was also price fixing within the distribution contracts. This latter point was not considered in detail by the Court of Appeal however.

In the High Court, the complainant had successfully applied to have the defence claims based on alleged breach of Article 81 of the EC Treaty struck out on the grounds that there was not a sufficient nexus between the breach of Article 81 and the infringement claim. They relied on earlier decisions suggesting that a trade mark owner's right to enforce its intellectual property was not affected by the existence of such illegitimate agreements although the agreements could themselves be challenged in separate proceedings by those affected by their terms (or the European Commission themselves if they become aware of such restrictive practices). These arguments



found favour with the judge, but his decision was appealed by the defendants.

The Court of Appeal engaged in a lengthy consideration of previous case law in this area (not all of which was reviewed by the lower Court) and concluded that there might be circumstances where an agreement or practice in breach of Article 81 of the EC Treaty could affect the trade mark owner's exercise of his right to sue for infringement and that the previous cases had contemplated that such a defence might be available under Community law. Thus it was not appropriate to strike out this part of the defence arguments. ▶

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# YOU CAN COMPARE - IF IT'S FAIR!

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It is important to note that this was an interlocutory decision and the point will be argued further at the full trial. A final decision is therefore not yet available.

Nevertheless, trade mark owners should be extremely cautious, as a consequence of this case, when considering arrangements or agreements involving their IP rights whose effects could contribute to an artificial partition of the European Union and hinder the free movement of goods. Should they choose to enter such arrangements, they could find that their trade mark infringement rights are correspondingly cut down, or even unenforceable.

Using someone else's trade mark in a comparative advertisement for your goods or services is an attractive marketing proposition but can result in legal action. Such use is an infringement of the third party trade mark registration unless it satisfies the defence contained in Section 10(6) of the UK Trade Marks Act.

This allows use of a registered trade mark "by any person for the purpose of identifying goods or services as those of the proprietor ..." However the use must be "in accordance with honest practices in industrial or commercial matters" to satisfy this defence. In previous cases, the UK Courts have looked at guidelines provided by the advertising industry to assess whether an alleged infringing use satisfies this test.

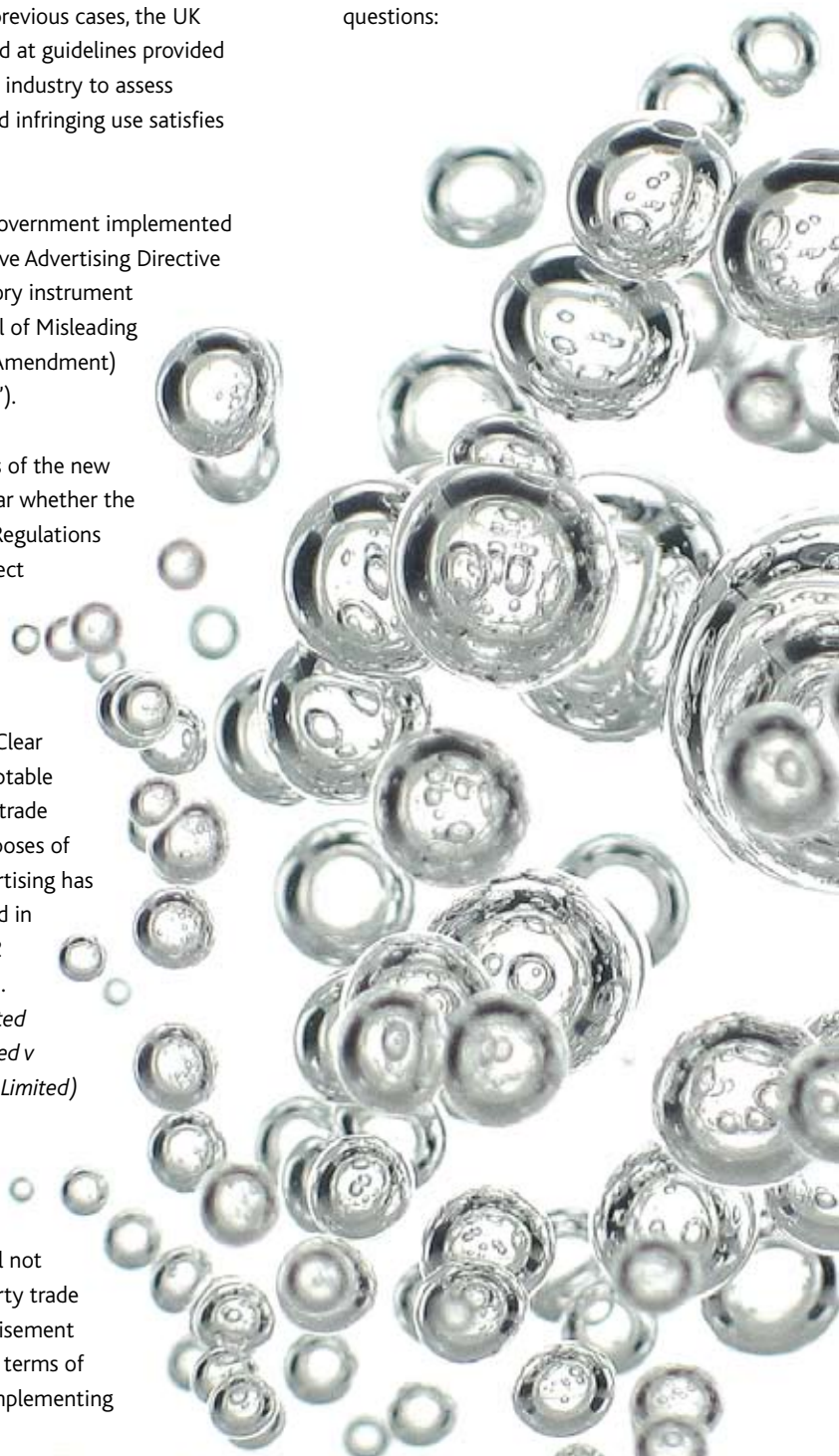
In 2000 the UK Government implemented the EU Comparative Advertising Directive (through a statutory instrument titled "The Control of Misleading Advertisements (Amendment) Regulations 2000").

In the early stages of the new law it was not clear whether the provisions in the Regulations would directly affect the judicial interpretation of Section 10(6) of the UK Trade Marks Act. Clear guidance for acceptable use of third party trade marks for the purposes of comparative advertising has now been provided in the UK case of *O2 vs. Hutchinson 3G*. (*O2 Holdings Limited and O2 (UK) Limited v Hutchinson 3G UK Limited*)

In this case, the Judge held that a comparative advertisement will not infringe a third party trade mark if the advertisement complies with the terms of the Regulations implementing the Comparative

Advertising Directive. It is apparently possible for an advertiser to comply with the S.10(6) defence, even though he is using a sign or other distinguishing mark which is not strictly identical to the registered trade mark. In this case, Hutchinson used pictures of bubbles in television advertisements which were similar, although not identical, to bubble devices registered as trade marks by O2.

The Judge held that in assessing whether or not the defence under S.10(6) complied with the Regulation guidelines, it will be necessary to consider the following questions:





- Is the advertisement misleading?
- Does the advertisement compare goods or services meeting the same needs or intended for the same purposes?
- Does it objectively compare prices?
- Does it create confusion in the marketplace between the advertiser and the competitor?
- Does it discredit the trade mark or services of the proprietor?
- Does it take unfair advantage of the reputation of the proprietor's marks?

In this case, due to the fact that the Hutchinson advertisement was not misleading, that it objectively compared prices, and at the end of the advertisement, a viewer would be left in no doubt which part of the advertisement related to which service provider, the Judge concluded that the advertisement fell within the Comparative Advertising Directive. As a result, there was no infringement of O2's rights under the Trade Marks Act 1994.

It is interesting to note that Recital 14 of the EU Comparative Advertising Directive, indicates that use of third party trade marks in such advertising will only be permitted where the use is indispensable to the advertisement. One might have thought that the defendant's use of bubble devices (rather than simply referring to O2 by name) was not strictly necessary or "indispensable" to their advertisement.

In deciding whether the use was "indispensable", the Judge took a broad approach indicating that one should pay attention to the context in which the comparison appears. If the overall message of the advertisement complies with the Directive in that it is not unfair or misleading, and is objective, the Court should allow any other subsidiary means of persuasion which give additional impact to the lawful message contained in the advertisement.

In basic terms, an advert complying with the Comparative Advertising Directive and satisfying the six criteria listed above, will provide a defence to use of a third party's trade marks which (in other circumstances) would have been found to be an infringement.

## DON'T CHALLENGE... UNLESS YOU'RE WORTH IT!

A recent decision from the High Court has potentially far reaching implications in terms of the grounds which should be included in an opposition, and the manner in which such proceedings are approached. Traditionally, UK trade mark opposition proceedings have been less elaborate and involved lower evidential standards than equivalent actions concerning trade marks in the High Court. Registry Hearing Officers do not always have a background in the law, but nevertheless participants in the opposition system throughout the years have generally felt that their conduct of opposition hearings (and the outcome) has been a fair reflection of the merits of each side's case.

Most parties have been content to accept the Registry's decision without pursuing a further appeal to the High Court, but this option has been seen as a useful "fallback" in important cases where significant commercial interests were at stake or new points of law required to be considered. One substantial advantage of the trade mark opposition procedure to date has been its relatively low cost, such that small or medium enterprises were not precluded from asserting their claims to prior trade mark rights.

However the "status quo" has been radically altered as a consequence of the Chancellor's decision in *Special Effects Limited v. L'Oréal S.A. and L'Oréal (UK) Limited*.

The case has a fairly complex background which we will summarise below:

The first stage involved an application for the trade mark

SPECIAL EFFECTS made in June 2000 by David and Jennifer Jones. They applied to register the trade mark for goods in class 3, namely "conditioners and hair lotions" and services in class 44, namely "beauty and cosmetic therapies". This trade mark was accepted for registration, but was opposed by L'Oreal SA, on the following grounds:

- ♦ That the words SPECIAL EFFECTS when used in connection with cosmetics would be recognised by the public as connoting make-up which produced a special effect – as in films and televisions. As such it would not be capable of distinguishing the goods from one undertaking from those of another.
- ♦ The mark applied for suggests that the products to which it is to be applied will produce a special effect. Accordingly, the mark is laudatory and not distinctive. Further, if the products do not produce such an effect the public will be deceived as to the purpose of the product.
- ♦ Since September 1995 L'Oreal had used in the UK of the letter "FX" in connection with hair products, and had generated a substantial reputation through such use. They also used their trade mark in the form SPECIAL FX. Accordingly, the opponent argued that registration of SPECIAL EFFECTS was precluded because use of such a mark is liable to be prevented under the law of "Passing Off", due to likelihood of confusion with their earlier rights.

After a full opposition Hearing, the Registry Hearing Officer concluded that the opponent had not proved their case and the opposition was rejected in its entirety.

However this was not the end of the dispute. In August 2002, L'Oreal had applied for a Community trade mark for SPECIAL FX; this was opposed by Special Effects Limited (David and Jennifer Jones had by then assigned the trade mark rights in SPECIAL EFFECTS to Special Effects Limited) on the basis that they had prior rights in SPECIAL EFFECTS in the United Kingdom. However OHIM considered that there was no likelihood of confusion between these trade

marks and this opposition also failed.

Nevertheless, in May 2005, Special Effects Limited commenced trade mark infringement proceedings against L'Oreal for the use of their trade mark SPECIAL FX in the UK in connection with hair care products. L'Oreal denied any likelihood of confusion and counterclaimed for invalidity against the registered UK mark, raising the same grounds which were the basis of the UK opposition proceedings in 2000. The complainant raised the issue of whether the doctrine of estoppel would apply to this part of the defence and the matter was heard on a preliminary basis before the High Court in March 2006.

L'Oreal argued that the doctrine of estoppel did not apply as the cause of action in an invalidity proceeding is not identical to opposition proceedings. Further, the decision in the opposition proceeding was not final. They argued that there was no issue in the previous opposition proceedings relating to the validity of the claimants mark or any final decision thereon; moreover, the context in which the comparative issues were raised in the opposition proceedings is materially different in practice and procedure to the High Court proceedings, so that it was not an abuse of process to seek to re-litigate similar issues in defence of a claim for infringement.

The High Court decided that despite the differences in nature between the Trade Mark Office and the Supreme Court, the

Trade Mark Registry in opposition proceedings is to be deemed a competent jurisdiction whose decisions were capable of giving rise to a plea of res judicata.

Moreover, the Chancellor found that there is no material difference between the practice and procedure of the Registry in opposition proceedings or invalidity proceedings. In each case, whether an objection to a mark can be made on absolute or relative grounds, the Registrar's decision, subject to appeal, is final. The fact that it may give rise to an estoppel binding in later proceedings in a Court, such as the High Court, which is demonstrably higher in the overall judicial hierarchy, is an inevitable consequence of the acceptance of the proposition that any decision of lower Courts may give rise to an issue or case estoppel. Furthermore, the Judge was not persuaded that the new evidence tendered on behalf of L'Oreal in the High Court invalidity claim amounted to special circumstances, so as to override the estoppel, as it was not suggested that such evidence could not have been obtained for the opposition.

In practical terms the implications of this judgment mean that all relevant grounds of challenge to a mark should be pleaded in an opposition. In addition the opponent should take great care when preparing and filing their supporting evidence as they may not be given a second chance to challenge the trade mark. The L'Oreal decision is currently under appeal and we will report on the outcome in a future Newsletter.



# EU REGULATION ON HEALTH AND NUTRITION CLAIMS: *IS YOUR MARK HEALTHY?*



On 16 May 2006 the European Parliament had the second reading and vote on the new Health and Nutrition Claims Regulation. Formal adoption of the Regulation is expected this Autumn and the Regulation will enter into force within 20 days of its publication in the Official Journal.

The aim of the Regulation is to ensure the effective functioning of the internal market as regards nutrition and health claims whilst providing a high level of consumer protection. The proposed Regulation will ensure that consumers will be able to rely on the truth and accuracy of information provided by businesses relating to food products. It covers nutrition claims, such as "low in fat" or "rich in vitamin C" and health claims, namely any statement of a positive relationship between the food in question and improved health.

A "claim" is defined as any message or representation which is not mandatory under community or national legislation, including pictorial, graphic or symbolic representation in any form which states, suggests or implies that a food has particular characteristics.

The Regulation will apply to all nutritional and health claims made in commercial communications, advertising and promotional campaigns relating to food, including foods placed on the market unpacked or supplied in bulk.

The Regulation will also apply to trade marks and brand names which may be construed as containing or suggesting nutrition or health claims. Such trade marks can be used without undergoing

the authorisation procedures provided for in the Regulation as long as they are accompanied by a related nutrition or health claim which complies with the provisions of the Regulation.

Existing trade marks (those that were on the market on 1 January 2005) and brand names suggesting health or nutritional benefits that do not meet the requirements of the Regulation must be phased out and removed from the market in the EU within a certain transitional period. This is still to be confirmed but is likely to be 10 years from the entry into force of the Regulation.

The Regulation lays down strict conditions for the use of nutrition claims and sets a threshold to be met before such claims can be made. It also aims to prevent foods that are unhealthy by virtue of, say, a high sugar, salt and/or fat content being promoted or sold as healthy by means of a claim such as "high in vitamin C". However, a nutrition claim will still be permitted if only one nutrient (e.g. salt, sugar or fat) exceeds the limit of the accepted nutritional profile. However, in this case, the high level of the "unhealthy" substance must be clearly marked on the label close to and with the same prominence as the positive nutritional claim.

Insofar as health claims are concerned, the EU Commission will draw-up a positive list of approved/well-established claims (e.g. "calcium is good for your bones") with the

assistance of Member States.

It will keep an up to date public register of such pre-approved claims which may be used on a label as long as they apply to the food in question.

Health claims not included in the "EU positive list" will require specific authorisation by the Commission. Approval will only be granted following scientific assessment and verification of the claim by the European Food Safety Authority (EFSA). Nutrition claims will also be maintained on this Register.

Any information about foods and their nutritional or health benefits used in product labelling, marketing and advertising which is not clear, accurate and meaningful and cannot be substantiated will not be permitted. For comparative claims it will be necessary that the products being compared be clearly identified to the consumer and that a range of foods in that category be considered.

Existing nutrition and health claims may be able to remain on the product for limited periods and subject to different requirements according to the transitional provisions.

Whilst it is likely that (existing) non-compliant trade marks will be on the market in the EU for some time to come, it is important that brand managers and advertising agencies dealing with the food industry be aware of the proposed Regulation in order to avoid breaching its requirements when developing new trade marks. Guidance should be sought from regulatory advisors.





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## D YOUNG & CO TRADE MARK TEAM EXPANDS WITH TWO NEW APPOINTMENTS

Due to consistent success in attracting and expanding our diverse client portfolio we are delighted to announce the appointment of two new trade mark assistants.

Kate Symons joins us following a two year appointment within the BBC Trade Marks Department. In her role at the BBC Kate gained experience in trade mark formalities as well as advising BBC internal business units on the availability of names for programmes, channel, genre and project titles. Kate also obtained foundation level qualifications in UK trade mark law and practice.

Richard Burton will provide support to our Southampton office team having recently qualified with a LLB Law and Marketing Degree at Southampton University. Richard will be working on his final dissertation on sensory marks during the summer of 2006 in order to complete his LLM Intellectual Property degree.

## STOP PRESS: ITMA ANNUAL REVIEW

D Young & Co have consolidated their position as one of the UK profession's highest filers both for UK and CTM applications following the annual review by ITMA, the Institute of Trade Mark Attorneys, published earlier this month. The firm also handled 40% more oppositions, revocations and cancellation actions compared with the previous year. This confirms a definite trend before both the UK and CTM Offices.



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