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TRADEMARK TALK

Counterfeiters, copycats and copyists



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Confusion surrounding the meaning of different IP rights was highlighted in a recent *MailOnline* article about an allegation that counterfeit goods had been sold at the discount store Poundstretcher. Serle Court's **Michael Edenborough** discusses the level of misunderstanding the story revealed

On the 29 February 2016, the *MailOnline* ran the story that the discount store Poundstretcher has been sued for "selling fake bottles of Head & Shoulders".¹ The article continued that "big brands launch fight against 'copycat' discounters". Within the opening bullet points, it raised the issue of copyright infringement. So within the space of a hundred or so words, one of the most widely read online sources of information for the general public had managed to mangle three separate intellectual property issues. It is this level of misinformation that plagues the debate about such matters.

Dealing with the counterfeiting allegation first

The makers of Head & Shoulders Proctor & Gamble (P&G) sued Poundstretcher for selling "bogus versions of haircare products between 2013 and 2014". P&G is also suing two of Poundstretcher's suppliers, namely Home and Beauty and J&S Brands over the same allegations. There is a further claim that the three defendant companies have also traded in counterfeit Ariel products. While one of the defendants, J&S Brands has stated that it believed that the products were legitimate, "it now knows that the marketplace was 'awash' with bogus goods at the time". P&G learnt of the fake products in about 2013, when a customer complained to the Trading Standard Authority about an Ariel product that had been bought in a Poundstretcher store in Sutton-in-Ashfield. P&G's enquiries discovered that the Head & Shoulders product was also fake. It seems that negotiations broke down, and

P&G has been forced to sue the defendants to seek redress. The delay, though, is curious and suggests that something else was involved.

"An important distinction exists between an intention (for example) to deceive (ie, to misappropriate the goodwill) on the one hand, and an intention either to copy or to sail close to the wind on the other hand."

Counterfeit goods mimic exactly or very closely the whole get-up of the genuine article. In particular, they tend to use an identical sign to the registered trademark, because the whole purpose is not to alert the potential customer that the fake product is not the genuine product. Fake products occur in all areas of commerce, from the mundane to the highly sophisticated (such as aeroplane parts or brakes for high performance cars).

Once found, there is no difficulty in securing a finding of infringement. The problems arise over enforcement, and in

particular, tracing the trade channels back to the original counterfeiter, who is often located in jurisdictions where IP enforcement is less than perfect. It is rare for a retailer of any size to sell counterfeit goods deliberately, because the reputational risk is too great. Commonly, such a retailer has itself been fooled into buying the fake goods, either because an intermediary has vouched for the goods or else the retailer has mistakenly thought that they were genuine, but grey, goods (which would account for the bargain price).

The rightsholder will obtain an injunction against the retailer, some costs and damages, delivery of the fake goods, and information regarding the next step in the supply chain. However, the problem then arises of following that supply chain all the way back to the source, and dealing effectively with that entity once found. Another problem is that the rightsholder will have to deal with the reputational damage, which is two-fold: (a) from dissatisfied customers who mistakenly believe the fake product is genuine; and, (b) from customers who consider that the rightsholder is not doing enough to stop the counterfeiters, especially if there is a health or safety issue involved. On the last point, that is why the general public does not condemn Rolex to the same degree that the same public would condemn, say, Porsche. A doggy watch is not life threatening, while bad break pads are.

Copycat packaging

The second issue of copycat packaging is potentially the most interesting, but also the most confused.

The *MailOnline* article segued from counterfeits to copycats in a seamless move: "High street stores have increasingly been trying to win sales by copying the pack design, colours and names used by big brands, which spend millions developing and promoting their products". This has nothing to do with counterfeiting, but all to do with copycat packaging.

The UK government consulted widely on this matter in 2014. In particular, it had been pushed hard by brand owners to introduce a private right of action under the Consumer Protection from Unfair Trading Regulations 2008 (the "CPUTR"). Currently, action under those regulations may be taken by the Competition and Markets Authority or the local Trading Standards Authorities. However, neither of those entities bring many prosecutions, and cuts to their funding are likely to reduce that number further. Hence, the call for private entities to be able to bring such actions themselves in order to enforce their rights. This debate was coupled with the idea of introducing a wider right to stop copycat packaging *per se*. The muddled nature of the brand owners' position may be seen from the arguments that they advanced during the consultation process.

For example, at first the brand owners endeavoured to rely upon an intention to deceive by the copycat traders as an indicator of guilt. However, the brand owners then retracted from that position, and said that intention was irrelevant. The current legal position is that intention is irrelevant in that neither trademark infringement nor passing-off has a *mens rea* element. Therefore, ignorance or innocence is no defence to either tort. Yet, if there is evidence of an intention to cause confusion or deception, then that would be held against the potential wrong-doer, as the court would be slow to reach the conclusion that a wrong-doer failed to achieve that which it set out to do. An important distinction exists between an intention (for example) to deceive (ie, to misappropriate the goodwill) on the one hand, and an intention either to copy or to sail close to the wind on the other hand. An intention to copy is permissible as there is no tort of copying; while an intention to sail close to the wind is, if anything, now considered to be in the potential wrong-doer's favour, as it actively did not wish to cross the line. The CPUTR requires an intention to deceive (which most likely would be construed objectively, not subjectively, in line with a similar requirement for the tort of passing-off), and so a mere intention to copy or to sail close to the wind would be insufficient. It is wrong in principle to infer an intention to deceive from either of these other lesser intentions.

Trademark infringement and passing-off protect the business interests of traders. The CPUTR is to protect the consumer at large from deception. Those are different objectives (even though they might be an overlap of interests). It is appropriate for a public body to exercise the public guardian function. It is correct to say that the final result of any action under the CPUTR, whether brought by a public official or a private business, ought to be the same. However, what is critically different is the reasoning and motive for commencing any such proceedings in the first place. A public body will judge whether or not to commence proceedings against the public interest; while a private business will make that decision based upon its own personal commercial reasons. There is no reason why those justifications should coincide; in fact, they might well conflict. For example, as very few cases make it to a final decision, commencing unmeritorious proceedings could be a tactical step used by businesses to stifle competition. That highlights why it is inappropriate for a private business to be entrusted with a public guardian function and to have the power to commence private actions under the CPUTR as it would be too easily abused.

"If shoppers are misled, or there is free-riding or parasitic behaviour, then liability will arise under the current laws. If more is wanted, then what is it?"

A further problem is that there is no clarity on whether or not the brand owners want a different or wider scope of protection than that which is currently provided by the torts of trademark infringement or passing-off. If the scope is greater, then the precise limits of the new boundaries need to be identified. Merely copying something is too uncertain to be a suitable legal test. This is particularly so

if (as was suggested by some brand owners) copying non-distinctive elements would be sufficient for liability to arise. That argument is plainly flawed.

If the elements that have been copied are distinctive, then the copying is objectionable. If, however, those elements are merely decorative or indicative of certain characteristics of the goods, then the copying ought to be permissible as it is potentially beneficial to the consumer.

The existing torts of trademark infringement and passing-off require that there is something distinctive about the packaging and that there is either confusion or deception caused by the alleged offending copycat packaging. Creating a new cause of action that is predicated solely upon copying, when what is copied is not distinctive (nor protected by copyright), and there is no confusion or deception of the public would have a chilling effect upon competition. This, of course, is the objective of the brand owners who wish to eliminate all competition, not just unfair competition.

This lack of clarity as to the scope of any new right is highlighted by the views expressed by the director of the British Brands Group, John Noble, who has said "Such copying free-rides off brand reputations... products should not mislead shoppers or act as parasites on brands". If shoppers are misled, or there is free-riding or parasitic behaviour, then liability will arise under the current laws. If more is wanted, then what is it?

Dealing with the copyright issue

In fact, it appears that there was none. Nowhere was it suggested that the copycats had infringed the copyright in the packaging of the branded product. While in an appropriate case, this is potentially a very powerful cause of action, in the case of this online article it is likely that the mention of copyright was simply a manifestation of the perennial confusion by journalists between the different intellectual property rights. Such misunderstandings lead typically to errors like "patenting one's trademark" or "copyrighting an idea". If this level of understanding of such issues by journalists accurately reflects the level of understanding by the business community at large, then it is not surprising that so many businesses want new rights, because they miss the existing opportunities to enforce their current rights.

Footnote

1. <http://www.dailymail.co.uk/news/article-3469073/Poundstretcher-sued-selling-fake-bottles-Head-Shoulders-big-brands-launch-fight-against-copycat-discounters.html>