THE COMMON LAW AND IP

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THE ISSUE

The potential that lies within the common law for the protection of valuable intangibles viz those commercially valuable intangible assets that other commercial bodies - often trade rivals will inevitably want to free ride upon.

The ability the statutory IP laws give claimants- to control the activities of others in the market and maximise profits and exploitation- inevitably leads to pressure for the common law to fill in gaps in such protection ie to protect valuable intangibles not falling within these regimes. Ricketson contends that a general principle of liability should be acknowledged, based on preventing the defendant from reaping a competitive advantage, given the claimant's “expenditure of time, skill and labour in the creation of some intangible business value”1 and as Davis notes : “… under French unfair competition law, there is a remedy against concurrence parasitaire, which has been described as the exploitation of one party's commercial achievements or reputation by another, even if there is no likelihood of confusion between them and even if the parties are not directly in competition. .. Germany too, following the passage of its Unfair Competition Act 2004, has introduced sanctions against the “parasitic exploitation of another's achievements” which does not necessitate a misrepresentation”.2

The pressure on the common law to expand protection in this area focuses on the two actions where a specific valuable intangible is already protected. This paper will focus on the first action, though there will be a brief review of the second action and its potential to encroach more widely on the IP stage.

Passing off.

Classic form : Lord Oliver in Reckitt & Colman Products v Borden Inc summarised the general proposition contained in the tort as "no one may pass off his goods as those of another".

Valuable intangible: “goodwill” – in terms of defining goodwill it is usual to refer to the speech of Lord Macnaghten in CIR v Muller & Co's Margarine Ltd "][Goodwill] is the benefit and advantage of the good name, reputation and connection of a business. It is the attractive force that brings in business”

Framework of liability: the so-called “classic trinity” of misrepresentation – goodwill and harm.3

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2 Davis Why the United Kingdom should have a law against misappropriation 2010 CLJ 69(3) 561at 562
3 Lord Diplock presented a different test in Advocaat viz “…five characteristics which must be present in order to create a valid cause of action for passing off: (1) a misrepresentation (2) made by a trader in the course of trade, (3) to prospective customers of his or ultimate consumers of goods or services supplied by him, (4) which is calculated to injure the business or goodwill of another trader (in the sense that
So the tort involves the defendant’s misrepresentation whereby he harms the claimant’s goodwill – the cement of this trinity being customer reliance. This is not a tort that in theory prevents misappropriation per se:

Cadbury Schweppes Pty v Pub Squash Pty Ltd 1[1981] 1 WLR 193 Lord Scarman noted “[the defendant] does no wrong by entering a market created by another and then competing with its creator”. Lord Scarman asserted: “competition must remain free...[the line may be difficult to draw] but unless it is drawn, competition will be stifled”.

Now courts have allowed this tort to develop – once the courts term a common law action “protean” it is predictable that its boundaries will be pushed. Two major extensions in the 20th century were “extended” passing off and what for brevity can be termed “inverse passing off”. Both controversial in their own right but in both areas the classic trinity can apply – these extensions can be seen as closely related to the classic case.

Extended passing off. Erven Warnink BV v Townend & Sons Ltd [1979] AC 731, the Advocaat case, the misrepresentation is about a distinctive product rather than a distinctive claimant.

Inverse passing off – where the claimant is not referred to by the defendant but rather the defendant asserts that the claimant’s goods are his goods or that the claimant’s quality (as evidenced by examples, commendations, or testimonials) is his quality. The Court of Appeal in Bristol Conservatories Ltd v Conservatories Custom Built Ltd [1989] RPC 455 appeared happy to accept this form of the tort.

The action for breach of confidence

Classic form: in the commercial field, protecting trade secrets or commercially exploitable ideas against confidants who break faith …and third parties who acquire such “tainted” information or ideas.

Valuable Intangible: information or ideas not in the public domain

Framework: the framework for the action for breach of commercial confidence is still that provided by Megarry J in Coco v Clark [1969] RPC 41. The information must be “of a confidential nature”; must have been imparted “in circumstances importing an obligation of confidence”; there must be an unauthorized use of that information by the defendant (possibly “to the detriment of the party communicating it”).

The main expansion of this action in the commercial field has been in establishing a duty of confidence: it is clear now that a relationship of confidence is not necessary: “surreptitious” acquirers and strangers whose “conscience” should be affected are also bound by this duty.

However it should be borne in mind that the action for breach of confidence in relation to personal secrets/confidentiality is on the verge of transforming into a privacy right. In Douglas v Hello! Lord Nicholls asserted that the action “now covers two distinct causes of

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this is a reasonably foreseeable consequence) and (5) which causes actual damage to a business or goodwill of the trader by whom the action is brought…” but continued “…It does not follow that because all passing off actions can be shown to present these characteristics, all factual situations which present these characteristics give rise to a cause of action for passing off”.

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action, protecting two different interests: privacy, and secret (‘confidential’) information.”. In both the US and Continental European jurisdictions a privacy right ultimately also spawned a “publicity” right or “image” right ie a right to protect the commercialisation of one’s own image or celebrity [and in the US this was justified on the basis of “misappropriation”].

THE PUSH TO EXPAND THE VALUABLE INTANGIBLES PROTECTED BY THE COMMON LAW

(i) The tort of Passing Off and the protection of valuable intangibles beyond customer connection

In theory this trinity prevents the court from determining liability simply on the basis of what is unfair trading practice (eg a mere misdescription) or what is commercial “misappropriation”. To gain wider protection claimants must either persuade the courts to abandon the Classic Trinity – ie detach protection from its misrepresentation base OR persuade the courts to accept much vaguer definitions of the key Classic Trinity ingredients.

How likely is it that the courts will accept an express misappropriation action? There are dicta to inspire a campaign for a misappropriation action …Aldous LJ in Arsenal FC Plc v Reed [2003] EWCA Civ 696; [2003] RPC 39 [70] “I realise that there was no appeal on the conclusion reached by the judge on the cause of action traditionally called passing off, perhaps best referred to as unfair competition. However I am not convinced that his reasoning was correct. The traditional form of passing off as enunciated in such cases as Reddaway v Banham…is no longer definitive of the ambit of the cause of action”.

However such a development unlikely, particularly given Jacob LJ’s forthright views on such dicta in L’Oreal SA v Bellure [2007] EWCA Civ 968; [2008] RPC 9 at [161]…and his assertion “ … the tort of passing off cannot and should not be extended into some general law of unfair competition. True it is that trading conditions have changed somewhat over time—but I cannot identify any particular change which makes a general tort of unfair competition desirable, still less necessary. If the courts (or indeed Parliament) were to create such a tort it would be of wholly uncertain scope—one would truly have let the genie out of the bottle”.

(This is part of a consistent disapproval see also:

Hodgkinson & Corby Ltd v. Wards Mobility Services Ltd [1955] F.S.R. 169 per Jacob J. at p. 175: “At the heart of passing off lies deception or its likelihood, deception of the ultimate consumer in particular…. Never has the tort shown even a slight tendency to stray beyond cases of deception. Were it to do so it would enter the field of honest competition, declared unlawful for some reason other than deceptiveness. Why there should be any such reason I cannot imagine.”

Reed Executive Plc v Reed Business Ltd [2004] EWCA Civ 159; [2004] RPC 40; Jacob LJ dismissive of an attempt to use the tort of passing off against e-commerce "parasites" Though
Jacob LJ acknowledged that some might think this use of another's mark was "unfair", he noted that others would accept it as "good competition".4

L’Oreal SA v Bellure NV [2007] EWCA Civ 968; [2008] RPC 9 at [139]-[140] "The rejected complaint [in Hodgkinson..] shows just how anti-competitive a law of unfair competition would or might be. What one man calls “unfair”, another calls “fair”. The market involves the interests of traders, their competitors and consumers. They all have different perspectives. An established trader would like the law to hold off all his competitors—and as far as possible. He would want to prevent all copying of his products—and for as long as possible, preferably indefinitely… And the consumer will want the best deal he can get. He would oppose anything deceptive, but probably nothing else... So I think there are real difficulties in formulating a clear and rational line between that which is fair and that which is not, once one goes outside the requirement of no deception". 

note Jacob LJ's view in reply to ECJ TM decision in L’Oreal 2010: So far as I can see this is saying if there is “clear exploitation on the coat-tails” that is ipso facto not only an advantage but an unfair one at that. In short, the provision should be read as though the word “unfair” was simply not there. No line between “permissible free-riding” and “impermissible free-riding” is to be drawn. All free-riding is “unfair”. It is a conclusion high in moral content (the thought is clearly that copyists, even of lawful products should be condemned) rather than on economic content".

But some claimants have had significant success in expanding the protection of the tort by on rather vague definitions of the CT ingredients. Of particular significance here is the claim of passing off that combines an allegation of a vague connection misrepresentation ("bringing to mind" or "assume some association/mixed up with") - with an allegation of a vague harm - epitomised in allegation of dilution. The theory behind the concept of dilution harm "is based on the fact that the more widely a symbol is used, the less effective it will be for any one user” Schechter The Historical Foundation of the Law Relating to trademarks 40 Har L Rev(1927) 813

Kimberley-Clark v Fort Sterling [1997] FSR 877 Laddie J

Customers would believe "claimant somehow behind this product" and damage would "inevitably follow". This would result “from the more insidious long term commercial damage which will be caused by his competitor strengthening his own position by taking the benefit of the owner's mark and reputation”.

United Biscuits v Asda [1997] RPC 513 (and the phenomenon of own brand lookalikes)

Substantial number of customers would “guess at an association”. Sir Robert Walker J at 517 “the policy of the law to …discourage unfair competition”. Notes the defendant must not “take unfair advantage of [the claimant’s] reputation in his goods”. Note discussion of brands and their importance and the “miscalculation” of the degree of matching/parody.

4 [2004] RPC 40 at [149]
cf Mars v Burgess [2004] EWHC 1912 Lloyd J

Taittinger SA v Allbev Ltd [1993] FSR 641

Misrepresentation: "in some way associated with champagne"

Harm? Sir Thomas Bingham MR: "any product which is not champagne but is allowed to describe itself as such must inevitably, in my view, erode the singularity and exclusiveness of the description Champagne [and cause damage] of an insidious but serious kind". Mann LJ “The impairment is a gradual debasement, dilution or erosion of what is distinctive… The consequences of debasement, dilution or erosion are not demonstrable in figures of lost sales but that they will be incrementally damaging to goodwill is in my opinion inescapable".

cf Bulmer v Bollinger [1978] RPC 79 ("Babycham" case) note Buckley LJ at p104 “The learned judge said that the appellants' intention was to produce an association between their product and Champagne so that some of the glamour of Champagne might be transferred to their product (page 132 line 46), and I would not dissent from this. But the attraction by the appellants to their product of some of the glamour of Champagne would not of itself, in my opinion, amount to passing-off”.

Irvine v Talksport Ltd [2002] EWHC 367 Laddie J.

Misrepresentation: “happy to be associated” (CA – would believe he agreed to be so depicted)

“…those in business have reason to believe that the lustre of a famous personality, if attached to their goods or services, will enhance the attractiveness of those goods or services to their target market. In this respect, the endorsee is taking the benefit of the attractive force which is the reputation or goodwill of the famous person.” (at [39])

Harm? Dilution - and "damage the value of the goodwill to the claimant because, instead of benefiting from exclusive rights to his property, the latter now finds that someone else is squatting on it."

He draws on the Supreme Court of New South Wales decision in Henderson v Radio Corps Pty [1969] RPC 218 at 236, “...the wrongful appropriation of another's professional or business reputation is an injury in itself, no less, in our opinion, than the appropriation of his goods or money.

However cf the narrower view of "endorse" or "connection" possible in the majority judgments in Harrods Ltd v Harrodian School [1996] RPC 697 CA Millett LJ at 712 “the relevant connection must be one by which the plaintiffs would be taken by the public to have made themselves responsible for the quality of the defendant's goods or services”. And at 713 “not in my opinion sufficient to demonstrate that there must be a connection of some kind between the defendant and the plaintiff, if it is not a connection which would lead the public to suppose that the plaintiff has made himself responsible for the quality of the defendant's goods or services. A belief that the plaintiff has sponsored or given financial support to the defendant will not ordinarily give the public that impression. Many sporting and artistic
events are sponsored by commercial organisations which require their name to be associated with the event, but members of the public are well aware that the sponsors have no control over and are not responsible for the organisation of the event”.

And re harm: at 716 “I have an intellectual difficulty in accepting the concept that the law insists upon the presence of both confusion and damage and yet recognises as sufficient a head of damage which does not depend on confusion”.

(ii) Expanding breach of confidence

There has been judicial recognition that the action continues to develop to “reflect” changes in “technology and business practice”; the action has been characterised as “moving forward rather than drawing back”.

(a) The protection of “information” kept under wraps

Obviously this action – at least in its commercial form – could not transform itself into a general misappropriation action – it is focused on confidential matter. However we have seen cases where in effect the value of a photographic image kept under wraps has attracted protection against unauthorised use.

*Creation Records v News Group* [1997] EMLR 444 the judge accepted that the many members of the public present would have been free to rely on their memory of the scene or even “make a sketch of it from memory” as he accepted it was only the photographic record of the scene that was confidential.

*Douglas v Hello!* - at CA and HL level (part of the three consolidated cases that went under the name *OBG Ltd v Allan* [2007] UKHL 21).

It was not information in a traditional /trade secret sense that was being protected – Lord Hoffmann noted that “anyone was free to communicate the information” about the marriage and appearance of the celebrity couple. He noted that protection was sought for “a particular form of information”.

Though Lord Hoffmann accepted that the duty of confidentiality could only be imposed by the Douglasses, his approach was guided by the principle that the court should keep its eye “firmly on the money”. So he suggested that as everyone knew OK! had paid a considerable amount it was “straightforward” that they should be entitled to share the benefit of the duty of confidentiality attached to the wedding as photographic spectacle.

**Concern over this development?**

Lord Walker was concerned over this development of the action for breach of commercial confidence. he stressed the need to ensure a “consistent and rational development of the law of confidentiality”. So rather than appeal to the “economic realities” of the deal behind the

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1 Keene LJ *Douglas v Hello! Ltd* [2001] QB 967
2 Baroness Hale [2007] UKHL 21 at [307]
3 [2007] UKHL 21 at [117]
claim the court needed to address the proper function of the action: the protection of trade secrets. This meant that a clear framework for the action, consistent with that function needed to be applied. Walker was concerned that a "quasi-copyright" or "right to a spectacle" was being developed and feared an “uncontrolled and unprincipled explosion …[bringing]… incoherence into the law of intellectual property”. Lord Walker in OBG v Allan reminded us of the more orthodox Commonwealth position when he quoted from the judgment of Dixon J in Victoria Park Racing and Recreation Grounds Co Ltd v Taylor that “intangible elements of value” flowing from the exercise of powers or resources do not necessarily attract common law protection

(b) The protection of publicity as the opposite side of the coin to privacy - commodification of personality as attracting a right in itself

THE FUTURE?

Trade mark law developments L'Oreal v. Bellure, the ECJ held:

…where a third party attempts, through the use of a sign similar to a mark with a reputation, to ride on the coat-tails of that mark in order to benefit from its power of attraction, its reputation and its prestige, and to exploit, without paying any financial compensation and without being required to make efforts of his own in that regard, the marketing effort expended by the proprietor of that mark in order to create and maintain the image of that mark, the advantage resulting from such use must be considered to be an advantage that has been unfairly taken of the distinctive character and repute of that mark.”

The Gowers Review of Intellectual Property noted that passing off does not go far enough “to protect many brands and designs from misappropriation” (available http://www.hm-treasury.gov.uk).

NEED FOR A RATIONALE

PASSING OFF

Jacob LJ in L'Oreal SA v Bellure [2007] EWCA Civ 968; [2008] RPC 9 at [160] "Some commentators, generally those who support some wider tort, use the word “misappropriation” of goodwill to designate it... I wish to state that I think it very unhelpful. We are all against misappropriation, just as we are all in favour of mother and apple pie. To use the word in the context of a debate about the limits of the tort of passing off and its interface with legitimate trade is at best muddling and at worst tendentious".

Singapore Court of Appeal in Novelty Pte Ltd v Amanresorts Ltd [2009] FSR 20 noted that where harm is alleged it must be clear that the claimant’s goodwill is threatened: speculative heads of damage that simply indicated a likely misrepresentation without likely harm must be rejected. Here the claimants alleged: loss of licensing opportunity; loss of control; restriction on expansion; misappropriation of goodwill or reputation; loss of exclusivity or
distinctiveness and dilution of the goodwill attached to their name. The court warned against the "inchoate" nature of these allegations.

TRADE SECRETS

Normally the public interest requires both the dissemination of ideas and the promotion of competition. Copying and developing other's information and ideas is good for consumers and the economy. This is underlined by the acceptance of reverse engineering as a legitimate activity. Why then should it be in the public interest to protect ideas and information on the basis that they have been kept secret? Supreme Court in *Kewanee Oil Co v Bicron Corp* 416 US 470 (1974), the protection of trade secrets leads to economically worthwhile activity by stimulating innovation and by facilitating limited dissemination. The perception in the business community that valuable confidences will be protected is in fact the incentive to innovate, share secrets and reduce security measures.

CONCLUSION

*L'Oreal SA v Bellure NV* [2007] EWCA Civ 968; [2008] RPC 9 139 Jacob LJ “Moreover, the basic economic rule is that competition is not only lawful but a mainspring of the economy. The legislator has recognised that there should be exceptions. It has laid down the rules for these: the laws of patents, trade marks, copyrights and designs have all been fashioned for the purpose. Each of them have rules for their existence and (save for trade marks) set time periods for existence. Each has their own justification. It is not for the judges to step in and legislate into existence new categories of intellectual property rights. And if they were to do so they would be entering wholly uncertain territory” (at [141]).