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COMMENTARY

Fifty Shades of Criminal Liability: "Grey" Goods and Beyond

The recent Court of Appeal decision in *R v C and Others*[1] confirms that dealings in certain types of "grey" goods may be potentially subject to criminal sanctions in the same way as counterfeit goods. The decision will be welcomed by brand owners, who are often faced with the difficult task of policing the unauthorised distribution of branded products across Europe.

There are, however, important limitations to the decision. First, it is not certain to what extent the same principles would apply to parallel imports of genuine branded goods from outside the EU where the products had been put on the market with the consent of the brand owner. A particular distinction has to be made with goods originating in the EU and subsequently re-imported into the EU as such re-imports may be legitimate under the EU parallel import regime. Second, it seems unlikely that the ruling will lead to a flood of successful prosecutions, given the inherent difficulties of proof and the higher evidentiary burden that is applicable for criminal cases. Instead, the most important practical impact of the decision is likely to be to deter businesses from trading in certain types of branded products in circumstances where they are made aware or ought otherwise have known that their distribution is not authorised by the brand owner.

Background

The case was an appeal from a Crown Court decision given at a preparatory hearing. It was alleged that the defendants had been involved in unlawfully selling in the UK various branded goods, including shoes and clothing, all of which had been manufactured in countries outside of the EU. It was alleged that some of these goods were fake and counterfeit, while others were genuine. The latter were manufactured by factories authorised by the trade mark proprietor but thereafter disposed of without the proprietor's consent. Such goods are commonly known as "grey" goods, that is goods to which the trade mark was applied with the trade mark proprietor's consent, but which have been sold or distributed without the proprietor's consent. These "grey" goods included:

- Goods which had been part of an order placed with an authorised manufacturer by the trade mark proprietor but then cancelled;

1 [2016] EWCA Crim 1617

- Goods which were part of a batch whose manufacture had been authorised but were then subsequently rejected as not being of sufficient standard; and
- Goods which were manufactured pursuant to an order with the brand owner's authority but in excess of the required amount.

Notably, it was *not* alleged in this case that the defendants had engaged in parallel importing of genuine branded products from outside the EU. The distinction is important because unlike the other "grey" goods discussed above, in the case of parallel imports, the application of the brand is not only authorised by the brand owner, the goods themselves are also put on the market by them.

The Court's Reasoning

The case essentially turned on the interpretation of section 92 of the *Trade Marks Act 1994* ("*Trade Marks Act*"), which sets out the criminal offences for trade mark infringement under English law, and subsection 92(1) in particular, which provides that "*a person commits an offence who with a view to gain for himself or another, or with intent to cause loss to another, and without the consent of the proprietor, sells [...] or distributes goods which bear [...] [a sign identical to, or likely to be mistaken for, a registered trade mark]*". The key issue for the Court was whether a person can be criminally liable for such an offence in relation to the types of "grey" goods identified above.

The Court of Appeal held that the provisions under section 92 should be interpreted widely and applied to "grey" goods as well as counterfeit products. In doing so, the Court rejected the defendants' more restrictive interpretation of section 92 on the basis that it was contrary to the heading and wording of that section. The Court held in particular that the section applied to "grey" goods as a matter of "*ordinary statutory interpretation*".

In reaching its decision, the Court also relied on two sources of authority. Firstly, it relied on the leading text book in the area, *Kerly's Law of Trade Marks*, whose editors considered that section 92 had a broad application. Secondly, it relied on earlier case law—in particular the Court of Appeal's decision in *Genis*[1]— which suggested section 92 should not be restricted to counterfeit goods. The Court also referred to the reasoning of Pumfrey J in *Levi Strauss Inc v Tesco Stores Ltd*[2] (which was in fact a civil liability case involving parallel imported goods) in support of the view that a sign may well be infringing even where it is applied with the authorisation of the trade mark owner.

Finally, the Court considered the defendants' argument that section 92 should be applied restrictively for policy reasons, as otherwise it could lead to criminal sanctions against traders in "grey" goods and parallel imports, which would (it was argued) be "harsh" and contrary to Parliament's intentions. The Court rejected this argument, holding that there was ultimately a balancing exercise to be done, and that there were strong policy reasons for applying criminal sanctions to "grey" goods. The Court noted, for instance, that the distribution of "grey" goods could gravely undermine the value of a brand, affect legitimate trade and, in some cases, raise very real issues of public safety; similarly, the distribution of genuine products that fail the brand owner's quality assurance processes has the potential to seriously damage the reputation of the brand.

The Court recognised that while its decision may lead to outcomes which are "*tough in certain cases*", this had to be set against "*the often unscrupulous conduct*" of certain parties looking to exploit weaknesses in supply chains. Importantly, the Court also highlighted that the offence had to be proven to the much higher "beyond reasonable doubt" criminal standard, and a statutory defence is always available where the defendant acts honestly and reasonably.

Analysis and Outlook

This decision confirms that criminal liability under the *Trade Marks Act* is broad and may in certain cases catch dealings in "grey" goods. While this decision is likely to be welcomed by brand owners, it may concern some distributors of branded goods (particularly those lower down in the supply chain)

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2 [2015] EWCA Crim 2043

3 [2003] RPC 18

who may struggle, in some instances, to know whether the distribution of the goods has been authorised by the trade mark owner.

However, it is important to note the Court of Appeal's comments about the difficulty in successfully prosecuting "grey" goods cases. This is particularly because of the higher evidential burden required in criminal cases. The prosecution is required to show, beyond reasonable doubt, that the infringing acts happened without the consent of the trade mark proprietor. While this will usually be a straightforward test to satisfy for counterfeit goods, proving it in relation to "grey" goods will likely be harder as it may involve interpretation of what was in fact permitted under the relevant trade mark licence and considering factually complex evidence regarding what had been consented to by the brand owner.

The Court also stressed the existence of a defence under section 92(5) for persons who reasonably believed that the goods did not infringe any trade mark. Referring to the earlier House of Lords case of *Johnstone*,[3] the Court of Appeal highlighted that "*those who act honestly and reasonably are not to be visited with criminal sanctions*", further noting that in relation to trifling or "on the line" cases, "*it can be left to the good sense of trading standards officers not to prosecute*". Distributors taking reasonable measures to ascertain the provenance and lawfulness of their goods are therefore unlikely to face criminal sanctions. This could include dealing with reputable suppliers, keeping appropriate records, avoiding suspiciously cheap products and, where appropriate, seeking assurances from their own suppliers. It will be more difficult for distributors to escape liability where they are reckless or are put on express notice by the brand owner of unauthorised dealings in "grey" goods.

Establishing criminal liability in the cases of parallel imported goods from outside the EU will be even more difficult. The Court did not express any conclusive view on this issue because parallel imports were not the subject of the dispute. It seems likely, however, that establishing lack of consent in these cases will be much more difficult than in "grey" goods cases because these products are not only authorised by the brand owner but also put on the market (outside the EU) by or with the consent of the brand owner. A further issue concerns goods circulating within the EU that are modified or repackaged after first being put on the market by the brand owner (as happens sometimes with certain pharmaceuticals). Although a trade mark proprietor may have legitimate reasons in such cases to prevent further dealings in these goods, it is likely to be much more difficult to justify criminal prosecution in those circumstances.

The mere risk of criminal sanctions may nonetheless act as a deterrent to many businesses that trade in "grey" or parallel imported goods, whether knowingly or not. It may well be, for instance, that trade mark proprietors will more readily seek to threaten such traders with criminal sanctions, file complaints with Trading Standards or consider bringing private prosecutions. In view of the Court of Appeal's comments, however, it appears unlikely that this will open the flood gates for future criminal trade mark prosecutions.

Lawyer Contacts

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4 [2003] 2 CAR 33