

Case No: A2/2003/0074

Neutral Citation Number: [2003] EWCA Civ 696
IN THE SUPREME COURT OF JUDICATURE
COURT OF APPEAL (CIVIL DIVISION)
ON APPEAL FROM CHANCERY DIVISION
MR JUSTICE LADDIE

Royal Courts of Justice
Strand,
London, WC2A 2LL

Wednesday 21st May 2003

Before :

LORD JUSTICE ALDOUS
LORD JUSTICE CLARKE
and
LORD JUSTICE JONATHAN PARKER

Between :

ARSENAL FOOTBALL CLUB PLC
- and -
MATTHEW REED

Appellant

Respondent

(Transcript of the Handed Down Judgment of
Smith Bernal Wordwave Limited, 190 Fleet Street
London EC4A 2AG
Tel No: 020 7421 4040, Fax No: 020 7831 8838
Official Shorthand Writers to the Court)

Mr S. Thorley QC, Mr M. Brealey QC and Mr T. Mitcheson (instructed by **Lawrence Jones**) for the Appellant

Mr R. Wyand QC, Mr N. Green QC and Mr A. Roughton (instructed by **Duffield Stunt & Son**) for the Respondent

Judgment
As Approved by the Court

Crown Copyright ©

Lord Justice Aldous:

1. In January 1999 Arsenal Football Club Plc (Arsenal) started proceedings against Mr Matthew Reed in which they alleged that Mr Reed had infringed certain of their registered trade marks and had carried out acts of passing off. Those proceedings came before Laddie J in March 2001.
2. The judge in his first judgment, handed down on 6th April 2001, held that the allegations of passing off had not been established. The judge went on to conclude that the defence raised an issue of construction of the Trade Mark Directive (89/104/EEC) which could not be decided without a reference to the European Court of Justice (ECJ). He therefore referred the following questions to the ECJ.

“1. Where a trade mark is validly registered and
(a) a third party uses in the course of trade a sign identical with that trade mark in relation to goods which are identical with those for which the trade mark is registered; and
(b) the third party has no defence to infringement by virtue of Article 6(1) of the Directive;

does the third party have a defence to infringement on the ground that the use complained of does not indicate trade origin (i.e. a connection in the course of trade between the goods and the trade mark proprietor)?

2. If so, is the fact that the use in question would be perceived as a badge of support, loyalty or affiliation to the trade mark proprietor a sufficient connection?”

3. The ECJ (Case C-206/01) did not answer those questions in the form posed. They concluded:

“62. In the light of the foregoing, the answer to the national court's questions must be that, in a situation which is not covered by Art.6(1) of the Directive, where a third party uses in the course of trade a sign which is identical to a validly registered trade mark on goods which are identical to those for which it is registered, the trade mark proprietor is entitled, in circumstances such as those in the present case, to rely on Art.5(1)(a) of the Directive to prevent that use. It is immaterial that, in the context of that use, the sign is perceived as a badge of support for or loyalty or affiliation to the trade mark proprietor.”

4. They therefore ruled:

“In a situation which is not covered by Art.6(1) of the First Council Directive 89/104 of December 21, 1988 to approximate the laws of the Member States relating to trade

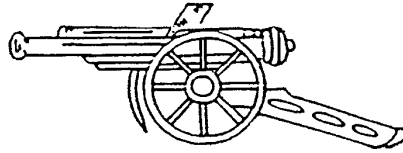
marks, where a third party uses in the course of trade a sign which is identical to a validly registered trade mark on goods which are identical to those for which it is registered, the trade mark proprietor of the mark is entitled, in circumstances such as those in the present case, to rely on Art.5(1)(a) of that Directive to prevent that use. It is immaterial that, in the context of that use, the sign is perceived as a badge of support for or loyalty or affiliation to the trade mark proprietor.”

5. The case came back before the judge in December 2002. In his judgment of 12th December 2002 ([2002] EWHC 2695 (CH)) (the second judgment) the judge concluded that the ECJ had disagreed with findings of fact made by him in his first judgment. That being so, the ECJ had “exceeded its jurisdiction” with the result that he was not bound by its final conclusion. He then applied the ECJ’s guidance on the law, as he understood it, to the findings of fact made in his first judgment and concluded that infringement of the trade marks had not taken place. That resulted in the judge coming to a different conclusion from that reached by the ECJ.
6. Arsenal have not appealed against the findings of the judge that passing off had not been established. Mr Reed also contended that Arsenal’s trade mark was invalid. That contention was rejected by the judge and there is no appeal against that conclusion. Thus this appeal is only concerned with the issue of trade mark infringement.
7. *The Background* – The factual background was fully set out by the judge and is not in dispute. I can therefore take from the judgment the salient facts to enable my judgment to be understood.
8. Arsenal is the internationally known football club. It is known as “Arsenal” or “the Gunners”. Part of the business carried on by Arsenal involves the sale of products bearing the words “Arsenal”, “Arsenal Gunners” and the device marks reproduced below:

The Crest Device:



The Cannon Device:



9. Arsenal alleged infringement of the following trade marks:
- “(a) Registered trade mark number 1383343 for “ARSENAL” in class 25 (registered 9th May 1989);
 - (b) Registered trade mark number 1387461 for the Arsenal Cannon device in class 25 (registered 8th June 1989);
 - (c) Registered trade mark number 1387589 for the Arsenal Crest Device in class 25 (registered 13th June 1989)
 - (d) Registered trade mark number 1393203 for “ARSENAL GUNNERS” in class 25 (registered 27th July 1989).”
10. Mr Reed is the self-employed proprietor of a wholesale and retail football merchandise business. Amongst the articles that he sells are souvenirs and memorabilia likely to appeal to Arsenal fans. Such include articles bearing the trade marks Arsenal, Arsenal Gunners and the device marks illustrated above. He accepted that he had, without Arsenal’s consent, used in the course of trade signs identical to the registered trade marks relied on by Arsenal in relation to the goods for which they were registered. He denied infringement. No positive case was pleaded in the defence, but in voluntary particulars it was made clear that he was asserting that there could be no infringement if the use complained about was not trade mark use, and his use was not trade mark use. It was that point which caused the reference to the ECJ.
11. *The Statutory Background* – The Trade Marks Act 1994 swept away the old law and implemented the Directive. It follows that the provisions of the Act must be construed so as to reflect the terms of the Directive.
12. Section 1(b) defines a “trade mark” as meaning “any sign capable of being represented graphically which is capable of distinguishing goods or services of one undertaking from those of other undertakings.” There is no doubt that Arsenal’s registered trade marks are signs which have the character required.
13. A registered trade mark is a property right (section 2) which is personal property (section 22). It can be assigned either in connection with the goodwill of a business or independently (section 24). Once obtained a registration is prima facie valid (section 72). It need not be used for the initial 5 years after registration, but thereafter it is liable to be revoked in whole or in part for non-use under section 46.
14. Section 2(1) states that the proprietor of a registered trade mark “has the rights and remedies provided by this Act”. For the purpose of this case the relevant rights are

those contained in section 10 (Article 5 of the Directive). The applicable parts of that section are as follows:

“s.10 Infringement of registered trade mark.

(1) A person infringes a registered trade mark if he uses in the course of trade a sign which is identical with the trade mark in relation to goods or services which are identical with those for which it is registered.

(2) A person infringes a registered trade mark if he uses in the course of trade a sign where because-

(a) the sign is identical with the trade mark and is used in relation to goods or services similar to those for which the trade mark is registered, or

(b) the sign is similar to the trade mark and is used in relation to goods or services identical with or similar to those for which the trade mark is registered, there exists a likelihood of confusion on the part of the public, which includes the likelihood of association with the trade mark.

(3) A person infringes a registered trade mark if he uses in the course of trade a sign which—

(a) is identical with or similar to the trade mark, and

(b) is used in relation to goods or services which are not similar to those for which the trade mark is registered, where the trade mark has a reputation in the United Kingdom and the use of the sign, being without due cause, takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.

(4) For the purposes of this section a person uses a sign if, in particular, he—

(a) affixes it to goods or the packaging thereof;

(b) offers or exposes goods for sale, puts them on the market or stocks them for those purposes under the sign, or offers or supplies services under the sign;

(c) imports or exports goods under the sign; or

(d) uses the sign on business papers or in advertising.

...

(6) Nothing in the preceding provisions of this section shall be construed as preventing the use of a registered trade mark by any person for the purpose of identifying goods or services as those of the proprietor or a licensee. But any such use otherwise than in accordance with honest practices in industrial or commercial matters shall be treated as infringing the

registered trade mark if the use without due cause takes unfair advantage of, or is detrimental to, the distinctive character or repute of the trade mark.”

15. It is important to note the difference between subsections (1) and (2) of that section. This case is concerned with identity of registered trade mark and sign and identity of goods. Thus infringement will occur if the alleged infringer “uses in the course of trade” the sign. Subsection (2) deals with use when the goods and/or the signs are not identical. In those circumstances a likelihood of confusion must be shown. That requires the proprietor to establish that there is a risk that the public might believe that the goods in question came from the same undertaking or an economically linked undertaking (see Lloyd Schuhfabrik Meyer & Co GmbH v Klysen Handel BV (Case C-C0342/97; [1999] ECR I-3819).

16. Section 11 contains exceptions to section 10. It is in this form:

“s.11 Limits on effect of registered trade mark.

(1) A registered trade mark is not infringed by the use of another registered trade mark in relation to goods or services for which the latter is registered (but see section 47(6) (effect of declaration of invalidity of registration)).

(2) A registered trade mark is not infringed by—

- (a) the use by a person of his own name or address,
- (b) the use of indications concerning the kind, quality, quantity, intended purpose, value, geographical origin, the time of production of goods or of rendering of services, or other characteristics of goods or services, or
- (c) the use of the trade mark where it is necessary to indicate the intended purpose of a product or service (in particular, as accessories or spare parts),
provided the use is in accordance with honest practices in industrial or commercial matters.

(3) A registered trade mark is not infringed by the use in the course of trade in a particular locality of an earlier right which applies only in that locality. For this purpose an “earlier right” means an unregistered trade mark or other sign continuously used in relation to goods or services by a person or a predecessor in title of his from a date prior to whichever is the earlier of—

- (a) the use of the first-mentioned trade mark in relation to those goods or services by the proprietor or a predecessor in title of his, or
- (b) the registration of the first-mentioned trade mark in respect of those goods or services in the name of the proprietor or a predecessor in title of his;

and an earlier right shall be regarded as applying in a locality if, or to the extent that, its use in that locality is protected by virtue of any rule of law (in particular, the law of passing off).”

17. *The First Judgment* – As I have said Mr Reed did not dispute that he had used signs identical to Arsenal’s registered trade marks in the course of his trade. His defence was that the words “uses in the course of trade a sign” required the use to be trade mark use. By that he meant that the use had to be in a manner that indicated the origin of the goods. It was his case that he used the word “Arsenal” and other trade marks as badges of allegiance, not in a manner that indicated a connection in the course of trade between the goods and Arsenal. The judge held that Mr Reed’s use was not trade mark use. He said:

“58. In my view, and consistent with the views expressed at para. 42 above, the Arsenal Signs on Mr Reed's products would be perceived as a badge of support, loyalty or affiliation to those to whom they are directed. They would not be perceived as indicating trade origin. Therefore I reject Mr Thorley's first answer to Mr Roughton's argument. It follows that for AFC to succeed on trade mark infringement, it has to rely on the non-trade mark use of those signs, that is to say the wide construction of section 10.”

18. The judge went on to consider the submission of Arsenal that “non-trade mark” use fell within section 10(1) of this Act. He referred to other sections of the Act and the Directive and concluded that:

“60. All of these points and others based on the recitals in the Directive might suggest that only use as a trade mark can infringe the rights secured by registration. ...”

19. The judge then noted that Jacob J in British Sugar Plc v James Robertson & sons Ltd [1996] RPC 28 had expressed a contrary view as had the Court of Appeal in Phillips Electronics v Remington Consumer Products [1998] RPC 283. That view was a provisional view expressed prior to the Court of Appeal seeking guidance from the ECJ. It was therefore not binding on the judge. With that background in mind the judge referred to the ECJ the questions set out in paragraph 2 above.

20. *The Second Judgment (12th December 2002)* – The judge went through the judgment of the ECJ and concluded:

“20. It appears from the above analysis that the ECJ held that where the defendant's use of a mark is not intended by him, or understood by the public, to be a designation of origin, there can be no infringement because such use does not prejudice the essential function of the registered mark. If that is so, then the first question in the reference should have been answered in the affirmative. However, it will be seen that the ECJ did not

answer that question in the affirmative or the negative but only stated that "in the circumstances" of this case, the claimant should succeed."

21. The judge then came to the submissions advanced on behalf of the parties. Mr Wyand QC, on behalf of Mr Reed, submitted that the ECJ had interpreted the Directive in the way that he had submitted it should be interpreted, but had then come to a conclusion in paragraph 62 of the ECJ judgment (see paragraph 3 above) in favour of Arsenal and had so ruled (see paragraph 4 above). That, he submitted, was the result of the ECJ embarking on an impermissible determination of fact. In any case the conclusion reached by the ECJ was incompatible with the findings of fact made at the trial.
22. Mr Thorley QC, who appeared for Arsenal, submitted that Mr Wyand had misconstrued and misunderstood the judgment of the ECJ.
23. The judge accepted the submissions of Mr Wyand. He said:

"27. It appears to me that Mr Wyand's analysis is correct. The ECJ has disagreed with the conclusions of fact reached at the trial and indicated that the claimant should win because Mr Reed's use was such as would be perceived by some customers or users as a designation of origin. If this is so, the ECJ has exceeded its jurisdiction and I am not bound by its final conclusion. I must apply its guidance on the law to the facts as found at the trial."
24. The judge went on to consider what should be done. He rejected the idea that there should be a further reference and concluded that he should apply the guidance on the law given by the ECJ to the facts as found by him. That he decided meant that there was no infringement. As I understand his judgment, he believed that the ECJ had upheld Mr Reed's contention that there could not be infringement unless the use complained about was trade mark use in the sense that it indicated trade origin. He therefore dismissed Arsenal's claim for trade mark infringement.
25. *The Jurisdiction of the ECJ* – There was no dispute between the parties that on a reference under Article 234, the purpose of the ECJ is "to decide a question of law and that the ruling is binding on the national court as to the interpretation of the community provisions and acts in question." (see Benedetti v Munari case 52/76 [1977] ECR 163). Even so, the ECJ has jurisdiction to review the legal characterisation of facts found by the national court (Camar and Tico v Commission and Council case C-312/00 (unreported 10th December 2002)). Also the ECJ has in the past provided guidance in order to enable the national court to give judgment (Helga Kutz-Bauer v Freie und Hansestadt Hamburg case C-187/00 (unreported 20th March 2003)). On occasions it has "steered" the national court for the purpose of unified application of the law. However, as the House of Lords made clear in R v Secretary of State for Transport ex parte Factortame (No. 5) [2000] 1 AC 524 at 550A, the English Court is not bound by that steer and therefore, with hesitation,

could conclude the case in a different way. It is the national court alone that must find the facts.

26. It follows that the judge was entitled to disregard any conclusion reached, in so far as it was based upon a factual background inconsistent with his judgment. Thus, upon his perception of the ECJ's judgment, he was entitled to disregard the conclusion in the ruling and decide the case upon the legal principles stated in the judgment of the ECJ.
27. *The Submissions of the Parties* – In outline, Arsenal put forward three submissions. First, the ruling (see paragraph 3 above) was a ruling as to the law and was binding on the court. Thus the judge's conclusion was wrong. Second, the judge had misunderstood the reasoning of the ECJ judgment. Arsenal accept that the jurisdiction of the ECJ was interpretation, but the ECJ could and do reformulate questions referred. That was what had happened in this case. That was necessary as 'Yes' or 'No' answers could not be given to the questions referred. The court had interpreted the word 'uses' in the Directive (as in section 10(1) of the Act) as not requiring that the use must indicate trade origin. It was sufficient if the use complained of was liable "to jeopardise the guarantee of origin which constitutes the essential function of the mark." That being so, upon the findings of fact made by the judge, no reasonable court could come to a conclusion that differed from the ruling of the ECJ. It was immaterial that the trade mark was perceived as a badge of loyalty as the use complained of was liable to jeopardise the guarantee of origin of the Arsenal trade marks.
28. Arsenal also submitted that the judge had in his first judgment wrongly held that the use of signs identical to the registered trade marks by Mr Reed were not such as to indicate trade origin i.e. a connection in the course of trade between the goods and the trade mark proprietor. It did not follow from the fact that goods bearing the signs were used by fans of Arsenal as badges of allegiance that the use was not use in a trade mark sense and the judge was wrong to believe that it did.
29. Mr Reed supported the conclusion and reasoning of the judge. He submitted that the ruling was not binding upon the court as it contained within it conclusions of fact contrary to those found by the judge. In any case, it needed to be interpreted in the light of the reasoning that preceded it. He submitted that the judgment of the ECJ provided three principles. First, not every use of a sign identical to the trade mark in respect of identical goods to those for which the mark is registered can be prohibited by the proprietor of the trade mark. Second, only such use as affects or is likely to affect the functions of the trade mark is prohibited. Third, the fact that the use is of a sign which is perceived as a badge of support for or loyalty or affiliation to the proprietor of the mark is immaterial to the issue of infringement. The judge had correctly understood the law as set out in the ECJ judgment and upon his findings of fact in his first judgment was bound to come to the conclusion he did.
30. In any case, Arsenal had failed to show that Mr Reed's use was likely to affect the functions of the trade marks. That was clear as they failed to produce any evidence that anybody believed there was a connection in the course of trade between Mr

Reed's goods and Arsenal. There was no evidence of confusion. The judge was correct to come to the conclusions of fact that he did.

31. *Is the ruling of the ECJ binding?* – Of course the ruling of the ECJ is binding in so far as it is a ruling upon interpretation. However I reject the submission of Mr Thorley that the national court should confine its attention solely to the ruling. Strictly speaking the judgment is the explanation of the ruling, but as Advocate General Warner explained in Robert Bosch GmbH v Hamptzollant Hildestein [1978] ECR 855: “the operative part of the judgment of this Court should always be interpreted in the light of the reasoning that precedes it.” That is particularly apt in the present case as the ruling uses the words “in the circumstances such as those in the present case”. To ascertain what the ECJ believed the circumstances were, it is necessary to have recourse to the preceding paragraphs of the judgment. I therefore turn to consider the ECJ judgment with the submissions of the parties in mind.

32. *The ECJ's Judgment* – The ECJ concluded that:

“42. To answer the High Court's questions, it must be determined whether Art.5(1)(a) of the Directive entitles the trade mark proprietor to prohibit any use by a third party in the course of trade of a sign identical to the trade mark for goods identical to those for which the mark is registered, or whether that right of prohibition presupposes the existence of a specific interest of the proprietor as trade mark proprietor, in that use of the sign in question by a third party must affect or be liable to affect one of the functions of the mark.”

33. In paragraph 42 of their judgment, the ECJ do not set out to answer the questions referred. Their reason becomes clear from the rest of the judgment. The referred questions were based upon the view that the issue of infringement would depend upon whether the use complained about was trade mark use, in the sense that the use indicated the origin of the goods. That the ECJ concluded was not the relevant consideration. In summary the ECJ held that registration of a trade mark gave to the proprietor a property right (see section 2 of the Act). The relevant consideration was whether the use complained about was likely to damage that property right or, as the ECJ put it, is likely to affect or jeopardise the guarantee of origin which constitutes the essential function of the mark. That did not depend on whether the use complained of was trade mark use.

34. The judge in paragraph 66 of his second judgment stated that the first of the two alternatives in paragraph 42 of the ECJ's judgment was Arsenal's submission and the second was in substance Mr Reed's argument. That was not correct. The crucial difference between Mr Reed's argument and the second alternative in the reformulated question was that the reformulated question looks at the interest of the proprietor's trade mark right and whether that interest is liable to be affected: whereas Mr Reed's submission looks at whether his use was of a particular type, namely, did it denote a connection in the course of trade between the goods and the proprietor.

35. The ECJ judgment proceeds to determine which of the alternatives in paragraph 42 of the judgment is correct. Upon the basis of the reasoning in paragraphs 43 to 47, the ECJ set out in paragraph 48 the essential function of a trade mark in these terms:

“48. In that context, the essential function of a trade mark is to guarantee the identity of origin of the marked goods or services to the consumer or end user by enabling him, without any possibility of confusion, to distinguish the goods or services from others which have another origin. For the trade mark to be able to fulfil its essential role in the system of undistorted competition which the Treaty seeks to establish and maintain, it must offer a guarantee that all the goods or services bearing it have been manufactured or supplied under the control of a single undertaking which is responsible for their quality (see, *inter alia*, Case 102/77 Hoffmann-La Roche [1978] E.C.R. 1139, para.7, and Case C-299/99 Philips Electronics NV v Remington Consumer Products Ltd [2002] ECR I-0000.”

36. The judgment then gives guidance as to how that essential function can be ensured.

“50. For that guarantee of origin, which constitutes the essential function of a trade mark, to be ensured, the proprietor must be protected against competitors wishing to take unfair advantage of the status and reputation of the trade mark by selling products illegally bearing it (see, *inter alia*, Hoffmann-La Roche, para.7, and Case C-349/95 Loendersloot [1997] E.C.R. I-6227, para.22). In this respect, the 10th recital of the preamble to the Directive points out the absolute nature of the protection afforded by the trade mark in the case of identity between the mark and the sign and between the goods or services concerned and those for which the mark is registered. It states that the aim of that protection is in particular to guarantee the trade mark as an indication of origin.

51. It follows that the exclusive right under Art.5(1)(a) of the Directive was conferred in order to enable the trade mark proprietor to protect his specific interests as proprietor, that is, to ensure that the trade mark can fulfil its functions. The exercise of that right must therefore be reserved to cases in which a third party's use of the sign affects or is liable to affect the functions of the trade mark, in particular its essential function of guaranteeing to consumers the origin of the goods.”

37. It is important to note that the ECJ is not concerned with whether the use complained about is trade mark use. The consideration is whether the third party's use affects or is likely to affect the functions of the trade mark. An instance of where that will occur is given, namely where a competitor wishes to take unfair advantage of the reputation of the trade mark by selling products illegally bearing the mark. That would happen whether or not the third party's use was trade mark use or whether there was confusion.

38. In paragraph 54 of the judgment, the ECJ explains that certain uses for descriptive purposes will not infringe because they cannot affect the registered proprietary rights. That meant that the first alternative posed in paragraph 42 (see paragraph 32 above) could not be the law. The judge went further. Having cited paragraph 54 of the ECJ judgment he said:

“It appears from the above analysis that the ECJ held that where the defendant's use of a mark is not intended by him, or understood by the public, to be a designation of origin, there can be no infringement because such use does not prejudice the essential function of the registered mark. If that is so, then the first question in the reference should have been answered in the affirmative. However, it will be seen that the ECJ did not answer that question in the affirmative or the negative but only stated that "in the circumstances" of this case, the claimant should succeed.”

39. Paragraph 54 of the ECJ judgment has to be read in the context of paragraph 16 of the *Holterhoff* judgment. The descriptive use in that case was held not to affect the proprietor's trade mark interest. At no stage did the ECJ suggest that use which was not understood by the public to be a designation of origin could not infringe. The ECJ indicated that the Directive required consideration as to whether the function of the trade mark right was liable to be harmed. That becomes more apparent from the paragraphs of the ECJ judgment that follow.

40. In paragraphs 56 to 59, two reasons are given as to why Mr Reed's use of signs identical to the registered trade marks is liable to affect one of the functions of Arsenal's registered trade marks. The first is contained in paragraphs 56 and 57 which are as follows.

“56. Having regard to the presentation of the word "Arsenal" on the goods at issue in the main proceedings and the other secondary markings on them (see para.39 above), the use of that sign is such as to create the impression that there is a material link in the course of trade between the goods concerned and the trade mark proprietor.

57. That conclusion is not affected by the presence on Mr Reed's stall of the notice stating that the goods at issue in the main proceedings are not official Arsenal FC products (see para.17 above). Even on the assumption that such a notice may be relied on by a third party as a defence to an action for trade mark infringement, there is a clear possibility in the present case that some consumers, in particular if they come across the goods after they have been sold by Mr Reed and taken away from the stall where the notice appears, may interpret the sign as designating Arsenal FC as the undertaking of origin of the goods.”

41. The judge read paragraphs 56 and 57 as containing a finding of fact by the ECJ contrary to his findings of fact in paragraphs 42 and 58 of his first judgment which were in this form:

“42. It seems to me that the use of the Arsenal Signs on Mr Reed's products carries no message of trade origin. Although I accept that some fans will want to purchase official Arsenal memorabilia so as to support their club, it is a *non-sequitur* to say that this means all Arsenal memorabilia or memorabilia displaying one or more of the Arsenal Signs will be taken by them to have come from or be licensed by AFC. Choosing to give your custom to one company by buying goods from it does not mean that that type of goods only comes from that company. What is necessary is some additional sign or circumstance of trading which says to the customer that the goods come from or are commercially connected with the source he likes and not some other source.

...

58. In my view, and consistent with the views expressed at para. 42 above, the Arsenal Signs on Mr Reed's products would be perceived as a badge of support, loyalty or affiliation to those to whom they are directed. They would not be perceived as indicating trade origin. Therefore I reject Mr Thorley's first answer to Mr Roughton's argument. It follows that for AFC to succeed on trade mark infringement, it has to rely on the non-trade mark use of those signs, that is to say the wide construction of section 10.”

42. Paragraph 42 came in the part of the judgment where the judge dealt with passing off. The issue was whether Mr Reed had misrepresented that goods sold by him were goods that came from Arsenal. The judge held that he had not done so. In paragraph 58 there was a finding by the judge that Mr Reed's use was not trade mark use in that it did not indicate the origin of the goods. However the judge did not come to any conclusion as to whether Mr Reed's use was liable to affect or jeopardise the guarantee of origin which was the essential feature of Arsenal's trade mark rights. No doubt this was not argued as an issue and because of that he did not consider it to be relevant.
43. Paragraphs 56 and 57 appear to contain conclusions of fact reached by the ECJ. As such they cannot be binding on the national court. However, the conclusions reached are not inconsistent with the findings of fact reached by the judge. The crucial sentence in understanding the ECJ reasoning is the last one in paragraph 57. There the court states that there is a clear possibility in the present case that consumers may interpret the sign as designating Arsenal as the undertaking of origin in a case where the goods are taken away from Mr Reed and therefore not subject to Mr Reed's explanation that they do not come from Arsenal. The judge's findings of fact were based upon the balance of probabilities. He was concerned with the effect of the

signs upon Mr Reed's customers, not upon consumers who might not know anything about Mr Reed.

44. The second reason is contained in paragraphs 58 and 59.

“58. Moreover, in the present case, there is also no guarantee, as required by the Court's case law cited in para.48 above, that all the goods designated by the trade mark have been manufactured or supplied under the control of a single undertaking which is responsible for their quality.

59. The goods at issue are in fact supplied outside the control of Arsenal FC as trade mark proprietor, it being common ground that they do not come from Arsenal FC or from its approved resellers.”

45. Mr Wyand submitted that those paragraphs also contained findings of fact contrary to those made by the judge in his first judgment. I reject that submission. The paragraphs contain reasoning and explanation based upon agreed facts. The ECJ looks at the function of a trade mark not whether the use is trade mark use. Unchecked use of the mark by a third party, which is not descriptive use, is likely to damage the function of the trade mark right because the registered trade mark can no longer guarantee origin, that being an essential function of a trade mark.

46. There follows in the ECJ judgment the conclusion in paragraph 61.

“61. Once it has been found that, in the present case, the use of the sign in question by the third party is liable to affect the guarantee of origin of the goods and that the trade mark proprietor must be able to prevent this, it is immaterial that in the context of that use the sign is perceived as a badge of support for or loyalty or affiliation to the proprietor of the mark.”

47. The judge held that the ECJ had indicated that Arsenal should win because Mr Reed's use was such as would be perceived by some customers or users as a designation of origin. That in my view was not the basis of the ECJ judgment. The judgment of the ECJ makes it clear that the important consideration is whether the right given by registration is likely to be affected by a third party's use. That occurs when the use complained about is likely to jeopardise the guarantee of origin which constitutes the essential function of the trade mark right. That was a matter never considered by the judge in his first judgment. He concentrated on whether Mr Reed's use was trade mark use.

48. *The Conclusion* – For the reasons given, I do not believe that the ECJ disregarded the conclusions of fact made by the judge in his first judgment. However I accept that they did conclude as a fact that, in the circumstances found by the judge, use by Mr Reed was liable to jeopardise the guarantee of origin which constituted the essential

function of the trade mark rights owned by Arsenal. That was, I believe, a finding of fact that was inevitable in the circumstances. As found by the judge, the trade marks, when applied to the goods, were purchased and worn as badges of support, loyalty and affiliation to Arsenal, but that did not mean that the use by a third party would not be liable to jeopardise the functions of the trade marks, namely the ability to guarantee origin. To the contrary, the wider and more extensive the use, the less likely the trade marks would be able to perform their function. As the ECJ pointed out, the actions of Mr Reed meant that goods, not coming from Arsenal but bearing the trade marks, were in circulation. That affected the ability of the trade marks to guarantee the origin of the goods. I therefore conclude that the result reached by the ECJ was inevitable once their judgment had made it clear that the material consideration was whether the use complained of was liable to jeopardise the guarantee of origin, not whether the use was trade mark use. The judge should have followed the ruling and decided the case in Arsenal's favour.

49. For those reasons I would allow the appeal and give judgment for Arsenal. That being so, it is not strictly necessary to deal with the second issue, whether the judge was correct that Mr Reed's use was not trade mark use, but I will do so as it was argued in full.

50. *Was Mr Reed's use trade mark use?* Mr Thorley referred us to the evidence and submitted that there was no basis for the conclusion reached by the judge. I will come to Mr Wyand's submissions, but before doing so will summarise the relevant evidence.

51. Mr Hazell had been the commercial manager of Arsenal since 1989. He explained how Arsenal's marketing had expanded and had played an important part in the club's activities. He said that it was apparent from the turnover that had been generated that demand by members of the public for licensed goods bearing the Arsenal trade mark was high. He believed that people wished to buy Arsenal merchandise partly because they were contributing towards the activities and success of the club. He said that from time to time the club's retail outlets received complaints about counterfeit merchandise displaying one or more of the Arsenal trade marks and he was pressed upon that in cross-examination. He said that since 1989 he had had half a dozen instances of confusion brought to his attention. He was asked by the judge (Evidence 1 page 99 line 11):

"MR JUSTICE LADDIE: ... You said perhaps about half a dozen instances of confusion you've heard about, because everybody is terribly busy, and what you are talking about is what people in your shop report to you?"

A: I think all, if not all, six or seven or whatever, but all of those customers that came back into the shop were most annoyed, they probably brought a garment the week before and bought it back the following home game. Most of those people have asked to see the commercial manager. I've been brought on match day to speak to those people personally.

Q: You said it was a bit vague because the shop was so busy?

A: Yes.

Q: You also said in answer to an earlier question “I think there is an element of confusion out there. Some customers bought back goods they were under the impression came from us”?

A: Yes.

Q: How – you have never spoken to any of these customers?

A: Yes, about half a dozen of them.

Q: You personally?

A: They would have called me on a match day to say they wanted to speak to the commercial manager.

Q: You spoke to the customer?

A: Yes.

Q: You say you thought they were under the impression. How did they get that impression?

A: Because it had a club crest on. The garment, I think one or more were T shirts, one or two were sweat shirts.

Q: How do you know it was their impression?

A: Because they told me.”

52. Mr Ireland had held the position of company secretary for Tottenham Hotspur. He explained to the judge that the club’s merchandising activities were a major commercial success and the demand for official Spurs’ merchandise bearing their trade marks was very high. He said their fans had come to expect the club to market its own range of goods and he believed that the success of Spurs’ merchandising activities was partly due to the high quality of the materials being sold. He said that by buying Spurs’ branded clothing the fans knew that they were contributing to the club’s finances. In cross-examination he was asked about unofficial goods being sold bearing the Tottenham Hotspur trade marks and whether the fans understood the difference between official and unofficial goods. At Evidence 1 page 35 line 19 he said:

“They understand if they buy something with one of our trade marks, that that indicates that it is a Tottenham Hotspur item of merchandise, because no-one else is allowed to use our trade marks. There is an unofficial market in stalls outside the ground on match days where people sell a blue and white scarf, or they sell T shirts with images of Sol Campbell, or they sell T

shirts, sadly quite distasteful T shirts, making comments about Arsenal Football Club.”

53. He went on to refute the suggestion that fans knew that both official and unofficial goods were on the market. In his view “any use of our trade marks on any clothing means it’s from the club”.
54. Mr O’Donovan was the national and international trade mark manager of Manchester United. He had held that position since 1990. He explained how the merchandising of Manchester United goods had expanded over the years and stated that it had become increasingly important to the success of the club. He said that Manchester United supporters were very aware that the success of the merchandising efforts generated the funds available to improve the stadium and its approaches, to provide car parking facilities, to provide academy and training facilities and to provide funds to enable the club to expend money on players as necessary. In cross-examination he was asked whether people wearing Manchester United clothing did so to show that they were supporters. He said that he assumed that to be the position, but also said that it was to show that the person had “bought the items manufactured by Manchester United”.
55. Miss Bouchard had been at Arsenal and was at the time that she gave evidence with West Ham. She was asked by the judge why warnings were given to supporters that there were inferior products about. She said (Evidence 1 page 69 line 12):

“A: The problem we had, and to some degree still have, is that people assume that something if it is carrying the official club crest or logo on it, it is produced by the club. We have had an instance where people have purchased items outside the shop and have brought them into the official club shop and said this is rubbish we want it replaced. We have said, but it is not an official club product, and they say it is bearing your logo. We say that may be but it is not official club merchandise. The public assume that anything bearing the club logo is often official.

...

MR JUSTICE LADDIE: Do you keep a log of these complaints?

A: We do at West Ham now.

Q: At West Ham you do?

A: Yes.

Q: Can you say what is the turn over at West Ham of their club shop?

A: Currently between £4.5 and £5 million.

Q: Per annum?

A: Yes, per annum.

Q: How many complaints like this, wrongly ascribing non-licensed goods to you, how many of those do you get a year?

A: On an average probably about 20.

Q: Did you keep a similar log when you were with Arsenal?

A: No. I mean I was relatively a junior member of staff at that time, and my then shop manager, Jack Kelsey, who is unfortunately deceased now, I do not believe he kept a record.

Q: Maybe things have changed, but did you receive complaints in those days when you were with Arsenal?

A: Yes, we did.

Q: In the same sort of frequency we're talking about?

A: Possibly more so. Supporters, somewhat in their naivety do sometimes assume when they are buying something from a market, because it bears the official club crest believe that it is an official club product. Often they are of inferior quality. The clubs do feel that it is not a good reflection."

56. Mr Reed made it clear in his evidence that he sold his goods as badges of allegiance and that everybody who purchased items from him knew full well that if it was marked official then it was a product that originated from Arsenal or an approved source and if not, it was not an official product. That was made clear in cross-examination when he identified the difference between official and unofficial goods as being that the official goods had labels or swing tickets whereas the unofficial goods had nothing. He accepted that absent such a label there was no way that consumers could differentiate between his products and those which were official.
57. Mr Adams gave evidence that a particular instance of alleged passing off had not occurred as there had been no misrepresentation. He accepted in cross-examination (Evidence 2 page 191) that "an official product is something produced and sold by the Arsenal Football Club". When asked how he distinguished between what was an official and unofficial product he explained that he was told which was which by Mr Reed. If he was unsure, he would go and ask, then he would put a sign on the various goods saying which were official. He explained that the official goods, being those coming from Arsenal, were stated to be official and that a sign was put on them stating that fact. That was the only way that consumers could tell the difference. He knew that Mr Reed would be angry if he sold something as official which was not and that on every occasion a sign was put up to differentiate between the two.

58. Mr Matthews also dealt with the alleged instance of passing off. He said in his witness statement that sometimes people did ask if goods on the stall were official. In the main it was foreigners who asked the question, and that it was probably half a dozen times a year that the question was asked. His standard answer was that nothing was official unless it actually said so on the product. He also made it clear that if he was in doubt he asked Mr Reed which were official goods and which were not. He would always ask if he was not sure, whether there were tags or not. It was his view that official goods had tags on and they were the means by which they were differentiated.
59. Mr Stephens also gave evidence as to the alleged incidence of passing off. In cross-examination he was shown two hats bearing an Arsenal trade mark and was asked which one was official. He accepted that a hat which just had the club crest on it might be official and that if he was working for Mr Reed he would ask him whether it was official or not.
60. Mr Reed and those who helped him were in no doubt that there was a market for what they referred to as official goods. Such goods bore the trade marks. In their view what differentiated those goods from the alleged infringing goods were tags or swing tickets which stated that the official goods emanated from Arsenal.
61. Mr Wyand submitted that the evidence established that the use by Mr Reed did not indicate a connection in the course of trade between Mr Reed's goods and Arsenal. He submitted that that was the result of the acts of Arsenal over 30 years. As Arsenal had started to expand their merchandising, they needed to distinguish their goods from those of others, in particular those of Mr Reed. It was Arsenal who had educated consumers that if they wished to support the club they should buy their goods from Arsenal. Arsenal themselves had told the public that they could not rely upon the word "Arsenal" on the goods as indicating that they came from Arsenal.
62. That submission is correct in part. No doubt Arsenal have been at pains to tell the public to purchase goods from them and not to purchase copies. However that message cannot have reached consumers at large. It is those who attend matches who could get the message, not the thousands of others who support or are interested in Arsenal and goods bearing the trade marks. Further the fact that consumers know that there are copies about does not mean that the word "Arsenal" on goods does not indicate origin. It could do so, but with the worry that it might be a wrong indication.
63. As to the instances of confusion, Mr Wyand supported the judge's conclusion that they were de minimis. He also submitted that such instances could have been the result of a false description of a scarf as an official scarf by somebody other than Mr Reed.
64. No attempt was made to differentiate between the use of the word "Arsenal" and the other trade marks. That seems to have been the result of the reputation of the other trade marks. It is therefore acceptable to consider whether Mr Reed's use was trade

mark use, taking as an example use of the word “Arsenal” on a scarf or other item of clothing.

65. The use of the word “Arsenal” on a scarf or other item of clothing could in theory denote three things. First that the owner was a supporter of Arsenal; second that the goods came from Arsenal or third a combination of the two. I suspect that to certain persons the first meaning would be the correct one. Mr Reed is an example of such a person. The crucial question is whether the other two meanings would occur to a substantial number of consumers.
66. As Mr Reed’s goods are in substance identical to those of Arsenal’s, there is nothing to differentiate them from Arsenal’s goods once the swing ticket or tag is removed. That was accepted by the witnesses called on behalf of Mr Reed. It was for that reason that they went to the length that they did to differentiate Mr Reed’s goods from those coming from Arsenal.
67. It is apparent from the evidence that a substantial number of consumers want to purchase goods bearing the sign “Arsenal” from Arsenal. That was the evidence of Mr Hazell which was supported by analogy by the evidence of Mr Ireland and Mr O’Donovan. Further, there was evidence of instances of confusion. Those instances of confusion were thought by the judge to be de minimis. But it is reasonable to conclude that the instances were just the tip of an iceberg as those that are confused will not complain without ground for complaint. However the importance of the evidence is not that there was confusion, but that consumers seeing the signs identical to the Arsenal registered trade mark on the goods turned to Arsenal to complain. As Mr Hazell said, they complained to Arsenal because the goods had on them the Arsenal crest. Miss Bouchard’s evidence was that people assumed that goods carrying the trade marks were produced by Arsenal. That appears to have been the position at Tottenham and Manchester United and there is nothing in the evidence that suggests that their fans think differently to fans of Arsenal as to the meaning of the trade marks on goods.
68. Mr Reed takes considerable care to inform his customers that his goods are not official in the sense that they do not come from Arsenal. If the use of the word “Arsenal” did not carry with it such an indication of origin, there would be no need for Mr Reed to do anything at all. Clearly Mr Reed is suspicious that persons purchasing from him would, absent an explanation, believe that the goods came from Arsenal. Why? The answer must be that they bear the name Arsenal and that it denotes origin. His suspicion supports the evidence of the witnesses called by Arsenal.
69. I accept the judge’s finding that the trade marks upon the goods are considered to be badges of allegiance, but all the evidence suggests that the trade marks do also designate origin of the goods to a substantial number of consumers. As to Mr Reed’s use I accept that he does differentiate his goods from official goods, but his goods marked with the trade marks were identical to those emanating from Arsenal and therefore his use of the word Arsenal would, absent an explanation carry the same inference as similar use of the trades mark by Arsenal. Certainly the evidence

suggests that that would be the inference that consumers would draw, particularly those that received the goods as a present. In my view the evidence is all one way, namely that use of the trade mark on goods such as scarves and hats, whether by Arsenal or others does denote origin.

70. *Passing off* – 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 [1896] AC 199 is no longer definitive of the ambit of the cause of action.
71. As Cross J said in Vine Products Ltd v Mackenzie & Co Ltd [1969] RPC 1 of the decision in the Spanish Champagne cases (Bollinger, J. and others v Costa Brava Wine Coy. Ltd [1960] RPC 16 and [1961] RPC 116).

“A man who does not know where Champagne comes from can have not the slightest reason for thinking that a bottle labelled “Spanish Champagne” contains a wine produced in France. But what he may very well think is that he is buying the genuine article – real Champagne- and that, I have no doubt, was the sort of deception which the judge had in mind. He thought, as I read his judgment, that if people were allowed to call sparkling wine not produced in Champagne “Champagne,” even though preceded by an adjective denoting the country of origin, the distinction between genuine Champagne and “champagne type” wines produced elsewhere would become blurred; that the word “Champagne” would come gradually to mean no more than “sparkling wine;” and that the part of the plaintiff’s goodwill which consisted in the name would be diluted and gradually destroyed. If I may say so without impertinence I agree entirely with the decision in the *Spanish Champagne* case – but as I see it uncovered a piece of common law or equity which had till then escaped notice – for in such a case there is not, in any ordinary sense, any representation that the goods of the defendant are the goods of the plaintiffs, and evidence that no-one has been confused or deceived in that way is quite beside the mark. In truth the decision went beyond the well-trodden paths of passing-off into the unmapped area of “unfair trading” or “unlawful competition.” [page 23 Vine Products Ltd v Mackenzie & Co Ltd [1969] RPC 1] (not checked)

72. I would allow the appeal and give judgment in favour of Arsenal and hear counsel as to the order that should be made.

Lord Justice Clarke:

73. I agree.

Lord Justice Jonathan Parker:

74. I also agree.

Order: Appeal allowed; respondent's notice dismissed; judge's order so far as it relates to infringement of trade mark should be set aside; the appellants, Arsenal, to recover half their costs before the judge; the respondents should pay the appellants' costs of the appeal, not to include more than costs of two counsel and only those that the costs judge considers reasonable; permission to appeal to the House of Lords refused; stay ordered until the petition to the House of Lords has been heard, if permission is given then the stay will continue until the determination by their lordships' House, upon an undertaking that the respondents put in the petition within 14 days, prosecute it with due diligence and keep accounts; interim order on account of costs in the sum of £59,000.

(Order does not form part of the approved judgment)