



[2017] UKSC 58

On appeal from: [2016] EWCA Crim 1617

JUDGMENT

R v M (Appellant)

R v C (Appellant)

R v T (Appellant)

before

Lord Neuberger, President

Lord Mance

Lord Sumption

Lord Hughes

Lord Hodge

JUDGMENT GIVEN ON

3 August 2017

Heard on 19 June 2017

Appellant (M)
Henry Blaxland QC
Edward Henry

(Instructed by Stokoe
Partnership Solicitors)

Appellants (C and T)
Michael Bromley Martin QC
Simon Baker
(Instructed by Stokoe
Partnership Solicitors)

Respondent
Julian Christopher QC
Brian Nicholson
Joel Smith
(Instructed by CPS
Specialist Fraud Division)

LORD HUGHES: (with whom Lord Neuberger, Lord Mance, Lord Sumption and Lord Hodge agree)

1. This is an interlocutory appeal in a criminal case which concerns the correct construction of section 92(1) of the Trade Marks Act 1994 (“the 1994 Act”).
2. The appellants are a limited company and two individuals connected with its management. They are indicted for, inter alia, offences of unauthorised use of trade marks, contrary to section 92(1)(b) and (c) of the 1994 Act. No trial has yet been held, and the Crown case remains at this point a matter merely of allegation, which may or may not be proved. At a preparatory hearing in the Crown Court, they advanced a submission that part of what was alleged was, on any view, outside the terms of section 92 and no offence. Both the trial judge and the Court of Appeal (Criminal Division) rejected that submission. They renew it in this court.
3. What is alleged is that the defendants are engaged in the bulk importation and subsequent sale of goods such as clothes and shoes. The goods, or many of them, are said to bear what appear to be the trade marks of well-known brands, such as Ralph Lauren, Adidas, Under Armour, Jack Wills, Fred Perry or similar. The goods were manufactured abroad, in countries outside the EU.
4. Some of the goods in the possession of the defendants are said to have been manufactured by people who were neither the trade mark proprietor, nor authorised by the proprietor to make them. This first category of goods, the appellants describe as counterfeits in the true sense.
5. A significant portion of the remainder of the goods are, however, ones where there had originally been an authorisation of manufacture by the registered trade mark holder, whether by subcontract, licence or otherwise, but whose sale had not been authorised by him. They were thus sold, bearing the trade mark, without the consent of the owner of the mark. The causes of the non-authorisation of sale might be, it is said, various. Some garments might deliberately have been made by the factories in excess of the numbers permitted by the trade mark owner, so that the balance could be sold for their own benefit. Some might have been made in excess of the order without that original ulterior intention (indeed perhaps as precautionary spare capacity planned and approved by the trade mark owner), but then have been put on the market without his consent. Some might have been made under a permission which was cancelled by the trade mark owner; that in turn might include cases where the trade mark owner was dissatisfied with the quality and not prepared to have the goods put on the market as if their own, but cancellation might not be

limited to that cause. Those are not exhaustive of the possibilities. These latter various types of goods are described by the appellants as goods appearing on the “grey market”.

6. It is common ground that neither the indictment nor the way the Crown puts its case distinguishes between these various different provenances. That led to submissions that the indictment would turn out either to be bad for duplicity or to be misleading, and at risk of producing verdicts which it was difficult to interpret. Thus was the point now at issue identified.

7. In short, it is common ground that:

(i) before there can be a criminal offence of unauthorised use of a trade mark there must be an infringement of that mark which would be unlawful as a matter of civil law; see *R v Johnstone* [2003] UKHL 28; [2003] 1 WLR 1736; and

(ii) the sale, or the possession in the course of trade, of goods of any of the various provenances set out in para 5 above, would amount to an infringement of trade marks, giving rise to civil liability.

But the appellants’ case is that whilst any of the various provenances set out would involve civil liability, it is only in the case of what they describe as true counterfeits that there is any criminal offence. They say that goods which were originally manufactured with the permission of the trade mark proprietor, but which are ones where he has not authorised the sale, are not true counterfeits and are not within the statute. Section 92(1) does not apply, they contend, to goods put on the grey market.

8. The resolution of this contention depends on the true construction of section 92(1) of the 1994 Act. It says:

“**92.- (1)** 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 -

(a) applies to goods or their packaging a sign identical to, or likely to be mistaken for, a registered trade mark, or

(b) sells or lets for hire, offers or exposes for sale or hire or distributes goods which bear, or the packaging of which bears, such a sign, or

(c) has in his possession, custody or control in the course of a business any such goods with a view to the doing of anything, by himself or another, which would be an offence under paragraph (b).”

Subsection 92(5) adds a reverse onus statutory defence:

“(5) It is a defence for a person charged with an offence under this section to show that he believed on reasonable grounds that the use of the sign in the manner in which it was used, or was to be used, was not an infringement of the registered trade mark.”

9. The appellants’ contention focuses on the use of the expression “such a sign” in subsection (1)(b). That refers back, they say, to subsection (1)(a). And by referring back to (1)(a), they say, it means that (b) applies only to goods where the relevant sign (ie trade mark) has been applied without the consent of the proprietor. Any goods in the “grey market” category have had the trade mark originally applied with the consent of the proprietor. It is only the sale which the proprietor has not authorised. Therefore, they say, those goods are not ones to which paragraph (a) of the subsection could apply. It follows, they contend, that they are not, when it comes to paragraph (b), goods which bear “such a sign”.

10. It may readily be agreed that the expression “such a sign” in section 92(1)(b) refers back to the sign described in the immediately preceding paragraph (a). The difficulty comes when one is asked to read “such a sign” as incorporating the words “without the consent of the proprietor” which appear in the first few lines of the section before (a), and also the requirement that the sign has been applied to the goods (without such consent), which is the central component of the offence under (a). This is simply not a possible construction of section 92(1). There is no difficulty, on the ordinary reading of paragraphs (a) and (b), in seeing what the reference back to “such a sign” in (b) imports from (a). “Such a sign” in (b) plainly means a sign such as is described in (a). The sign described in (a) is a sign which is “identical to, or likely to be mistaken for, a registered trade mark”. Signs (or trade marks) having any of the provenances described in para 5 above are squarely within this description. So-called grey market goods are caught by the expression.

11. The offences set out in paragraphs (a), (b) and (c) of section 92 are, as a matter of plain reading, not cumulative, but separate. It is not necessary that one has been committed (by someone) before one can say that the next in line has been. The mental element of a view to gain or the intent to cause loss is applicable to all three. So is the element that the use made of the sign is without the consent of its proprietor. Paragraph (a) then makes it an offence to apply such a mark, without consent and with the relevant mental element. Paragraph (b) makes it an offence to sell (etc) goods with such a mark, without the consent of the proprietor and with the necessary mental element. Paragraph (c) does the same for the preparatory offence of possession in the course of business with a view to behaviour which would be an offence under (b), again without the consent of the proprietor and with the relevant mental element. Subparagraph (c) thus involves anticipation (but not necessarily the commission) of an offence under (b). Of course, a person may commit all three offences, or different people may commit all three between them. But that is not necessary. Each stands alone.

12. The appellants' reading of paragraph (b) is, by contrast, strained and unnatural. It does not simply reach back to (a) but to the general words of the section which precede it. It requires one to read "sign" in (a), which is incorporated into (b), as "which bears a sign, so applied", or at least as "such a sign, so applied".

13. This being so, there is no ambiguity or obscurity in the language such as would justify the court, pursuant to *Pepper v Hart* [1993] AC 593, in investigating the contents of Parliamentary debate at the time of the passage of the Bill which became the 1994 Act. Nor can it be suggested that the ordinary (or literal) reading of the Act gives rise to absurdity. It should be recorded, moreover, that the appellants realistically did not contend that there had been the kind of clear ministerial statement which amounted to a definitive identification of what the Bill was intended to achieve. The most that is contended for is that the passage of the Bill was marked by several references to the desirability of punishing counterfeiting. No doubt it was. But there is not suggested to be any point at which Parliament, or any individual speaker, confronted the suggested difference between fake goods (which the appellants here describe as true counterfeits) and grey market goods. Still less is there any point at which it can be suggested that Parliament plainly confined itself to criminalising fake goods and abjured the criminalising of grey market goods.

14. In support of their contention that such a distinction was plainly intended, the appellants referred to observations made by Lord Nicholls and Lord Walker in *R v Johnstone* upon the differences between counterfeit goods, pirated goods, and bootlegged goods. Those observations arose, however, in the context of the case in which they were spoken. The defendant was charged with offences against section 92(1)(c). The offences were said to have arisen out of his possession for sale of compilation compact discs comprising songs which had covertly been recorded at concerts given by well-known artistes. The compact discs referred to the artistes by

name, track by track, and the artiste had in each case registered his name as a trade mark. The issue was whether the use of the name was, in the particular circumstances, one which might be taken by the buying public as an indication of authorised origin of the disc, as distinct from identifying the singer. That was a question of fact, but unless it was demonstrated that the use of the name would be taken as an indication of origin, there would be no civil liability for trade mark infringement, and the decision of the House was that in that event there could be no criminal liability either. It was in that context that Lord Nicholls referred at paragraph 1 to counterfeit goods as “cheap imitations of the authentic article”; that was said to distinguish that case from pirated music, which is music marketed without any trade mark, although recorded from a trade marked disc, and from bootlegged music, which is what Mr Johnstone had. Likewise, Lord Walker, at para 59, referred to counterfeiting as an expression “generally used to include unauthorised sale, under a well-known trade mark, of goods not made or authorised by the proprietor”. Neither of their Lordships was addressing what is here said to be the critical difference between fake goods and unauthorised goods on the grey market. Their observations came, moreover, years after the passage of the 1994 Act, and could not have been in mind at the time of its passing.

15. The appellants are correct that, in the context of goods which a proprietor voluntarily puts into the European single market with his trade mark attached, section 12 of the 1994 Act, transposing article 7 of Directive 89/104/EEC, has the effect that further objection to the use of the mark is limited to special cases, such as changes or impairments to the goods. But that is true whichever of the rival constructions of section 92 is correct. Where it applies, this concept of exhaustion means that there is no infringement of the mark as a matter of civil law, and thus no criminal offence. But this sheds no light on the correct construction of section 92.

16. The appellants further drew attention to the wording of the predecessor of section 92, section 58A of the Trade Marks Act 1938. This had provided:

“58A.(1) It is an offence, subject to subsection (3) below, for a person -

(a) to apply a mark identical to or nearly resembling a registered trade mark to goods, or to material used or intended to be used for labelling, packaging or advertising goods, or

(b) to sell, let for hire, or offer or expose for sale or hire, or distribute -

- (i) goods bearing such a mark, or
- (ii) material bearing such a mark which is used or intended to be used for labelling, packaging or advertising goods, or
- (c) to use material bearing such a mark in the course of a business for labelling, packaging or advertising goods, or
- (d) to possess in the course of a business goods or material bearing such a mark with a view to doing any of the things mentioned in paragraphs (a) to (c),

when he is not entitled to use the mark in relation to the goods in question and the goods are not connected in the course of trade with a person who is so entitled.

...

(3) A person commits an offence under subsection (1) or (2) only if -

- (a) he acts with a view to gain for himself or another, or with intent to cause loss to another, and
- (b) he intends that the goods in question should be accepted as connected in the course of trade with a person entitled to use the mark in question;

and it is a defence for a person charged with an offence under subsection (1) to show that he believed on reasonable grounds that he was entitled to use the mark in relation to the goods in question.”

17. This section provided, in subsection (3), for a more stringent test of mental element than does the present section 92. The appellants invite us to conclude that the earlier, more stringent, mental element may have had the practical effect of

confining criminal liability to cases of their category of “true counterfeits”, and they say that a change in that effect is not demonstrated to have been intended by the 1994 Act. The difficulty with that is that whilst it is certainly true that the mental element was more stringent, the 1938 Act would still have caught so-called grey market goods, for paragraph (1)(b) clearly applied to goods which were sold when sale was unauthorised, whether or not the original application of the mark had been permitted. Moreover, it is noticeable that the construction now contended for of section 92(1)(b) could not have been applied to section 58A(1)(b) without considerable difficulty, for the words giving effect to the element of absence of consent of the trademark proprietor did not appear at the beginning of the section as they now do, but only at the end; hence it would have been even more problematical to suggest that “such a mark” imported them. It is plain enough that the inversion of the order of the words was a grammatical rather than a substantive variation.

18. Nor is there any reason to strain the language of section 92(1)(b) so as to exclude the sale of “grey market” goods. That is not because of the consequentialist arguments pressed on us by the Crown. It is doubtful that (absurdities or impossibilities apart) difficulties in assembling evidence can ordinarily affect the construction of a criminal statute. Moreover, some of the supposedly adverse consequences of such a construction which were put before us on behalf of the Crown would be as likely to ensue even on the correct interpretation of the Act set out above. The possible difficulty of distinguishing, where there has been an overrun, between the goods marketed with the proprietor’s authority and those which were a backdoor venture on the part of the manufacturer and subsellers, might as well arise on both constructions; no doubt in many cases the circumstances of the exit from the factory and of the subsequent sales will often be telling. Likewise it is far from clear that there will be greater difficulty occasioned by the appellants’ suggested construction than by the correct one in the case of convincing fakes. In both cases the defendant may occasionally be in a position to assert that he was taken in and thus reasonably believed that no infringement was involved. Such a defence, if advanced, must be met on its merits, which will no doubt involve investigation of, inter alia, the circumstances in which the defendant acquired the goods and the inquiries which he did or did not make. But, these consequentialist arguments apart, it is, on any view, unlawful for a person in the position of the defendants to put grey goods on the market just as it is to put fake ones there. Both may involve deception of the buying public; the grey market goods may be such because they are defective. The distinction between the two categories is by no means cut and dried. But both are, in any event, clear infringements of the rights of the trade mark proprietor. Defendants who set out to buy up grey market goods to make a profit on re-sale do so because the object is to cash in on someone else’s trade mark. If such be proved, they have scant claim to a beneficent construction of the Act. As it is, its ordinary reading plainly means that, unless they have the statutory defence, they have committed an offence.

19. In the alternative, the appellants contend that the Crown's construction of section 92(1) involves a disproportionate breach of their rights under article 1, Protocol 1 to the European Convention on Human Rights. It may be accepted that it is perfectly possible that the imposition of a criminal sanction might be disproportionate where a civil law sanction is not. But persons in the position of these defendants have no proprietary right in the trade marks. They do have a right in the goods which they have bought, but the 1994 Act does not stop them selling them, except if they wish to do so whilst still with the misleading and infringing trade mark attached. The 1994 Act does not, therefore, deprive the defendants of any property which they have. The most it does is to regulate their use or the manner of their disposal of the goods, which is permitted under the second paragraph of article 1 in the general interest, which must include a general interest in the protection of trade marks. There is in any event nothing disproportionate in the 1994 Act penalising sales when the infringing trade mark is still attached, nor in imposing a criminal sanction on those who might otherwise calculate that the risk of liability in damages is worth taking. That is a perfectly legitimate balance to draw between the rights of the proprietor to protect his valuable trademark and goodwill, and those of the person who wishes to sell goods which he has bought.

20. For these several reasons, these appeals must be dismissed and the trial may proceed accordingly.