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Contentious Business
London Litigation and Arbitration Group

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Mediation and possible cost consequences

In the March 2003 issue of Contentious Business we reported on the landmark decision of Dunnett v Railtrack Plc, [2002] 2 All ER 850 which warned that parties who refuse to mediate may face adverse cost consequences even if they are later successful in the proceedings. Recent decisions have shown a gradual movement away from the strict approach taken in Dunnett and indicate that a party may refuse to mediate and not suffer cost consequences if it can show that there were real and genuine attempts to settle the proceedings in other ways.

This article looks at the application of Dunnett in some recent cases. The first case of Leicester Circuits Ltd. v Coates Brothers Plc, [2003] EWCA Civ 333 followed the Dunnett decision. Leicester Circuits sued Coates Brothers and on appeal Coates won. Coates did not receive all its costs in the case because, in the run up to the initial trial, they withdrew from mediation on the day before it was to take place. Coates stated that it withdrew from mediation on instructions from its insurer and the attitude of Leicester leading up to the mediation suggested that there was little prospect of the mediation being successful. Therefore Coates argued that they should receive their costs in the usual way.

The Court ruled that Coates should only receive its costs up to the date that the decision to mediate was taken. Judge LJ, in applying the decision in Dunnett, stated that although the mediation could not be guaranteed to be successful, *"it hardly lies in the mouths of those who agree to it to assert that there was no realistic prospect of success."*

Two cases decided since the Leicester Circuits decision show a gradual movement away from the strict Dunnett approach.

In Alan Valentine v (1) Kevin Allen (2) Simon John Nash and (3) Alison Nash, LTL 29/7/2003 Extempore, Gibson LJ on appeal allowed the Respondents all their costs after winning at trial despite the Respondent

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refusing offers to mediate. Gibson LJ felt that despite refusing to mediate, the Respondents had made real efforts to settle the matter by making offers to settle and negotiating. Gibson LJ felt it was not appropriate to go behind the earlier decision of Arden LJ who said, *"The Defendants rejected mediation, but it is not clear that the Claimant could by mediation come to any agreement. The failure to go to mediation is of no cause or effect."*

In Corenso (UK) Ltd v The Burnden Group Plc, [2003] EWHC 1805 (QBD), the claimant, Corenso, rejected offers of mediation yet still received its costs after succeeding in its claim. Reid J distinguished this case from Dunnett as the parties had made genuine and constructive attempts to settle the case out of court. In his view, *"…a party can quite properly discharge his obligations to consider ADR, and to attempt to engage in it, without necessarily being prepared to enter into mediation if he takes the view that there are other forms of ADR which are more appropriate or more likely to produce the appropriately desired result."* A *"genuine and constructive willingness to resolve the issues"* is what is important.

These recent decisions recognise that mediation may not be appropriate in all cases. If parties can show that "genuine and constructive" efforts to resolve a dispute have been undertaken, the Court has stated that it will be reluctant to penalise them for failing to mediate. How the principle in Dunnett will continue to evolve is to be seen, but the current less strict approach does not mean that parties can now afford to dismiss mediation altogether. Proceed with caution.

From Harry Potter to Waste Incinerators

September 2003 Contentious Business reported the case of Bloomsbury Publishing Group plc v News Group Newspapers & Others (2003). In that case, the publishers of an unpublished 'Harry Potter' novel obtained an injunction to prevent anyone printing extracts of a stolen copy of the novel. It was held that the failure to name a specific defendant did not invalidate the claim for an injunction as the defendants could be sufficiently identified by description. The Bloomsbury decision has now been followed in the case of Hampshire Waste Services Ltd & Others v Persons Unknown (July 2003) - this time in the context of trespassers on land.

Hampshire Waste Services Ltd owned and operated waste-incinerator plants around the country. In previous years the plants had become the target of environmental and anti-globalisation protesters, particularly around the time of pre-determined days described as "global days of action against incinerators". Protesters would publicise these action days on the internet. There would then follow invasions on the plant sites by trespassers, resulting in the plants being shut down for health and safety reasons, causing considerable and irrecoverable loss to the Claimants and disruption to community facilities.

A global day of action was planned for the 14th July 2003. Fearing an invasion of one of their plants, the Claimants applied for an injunction to restrain the threatened trespassers, however the Claimants were unable to name any of them.

The Court decided that it would grant the injunction notwithstanding the inability of the Claimant to name any of the potential trespassers. The Court treated the potential trespassers in the same way as it had treated the unknown defendants in the Bloomsbury case.

Following the authority in Bloomsbury, the Court decided that as long as the description used for the defendants was sufficiently certain to identify both those who were

involved and those who were not, it did not matter that the description might apply to nobody at all or that there were no other means of identification. The Court was not concerned about difficulties enforcing the injunction or problems with service – the documents could be fixed on posts in conspicuous places around the perimeter of the sites.

The extension of the decision in Bloomsbury case to a matter relating to trespass to property is significant for landowners and landlords. The availability of an injunction is a valuable alternative to squatter proceedings. The advantage of an injunction is that it is a preventative remedy. Squatter actions are reactionary and take place only once the trespassers are already on the land and usually when damage is already done. If you are a landowner habitually visited by squatters or trespassers at certain predicted times, e.g. public holidays or local festivals, then this may be the most effective way of keeping unwanted visitors off your land.

Corporate Insolvency Reform

The corporate insolvency provisions of the Enterprise Act 2002 came into force on 15 September 2003. As we have previously reported the purpose of the corporate insolvency reforms is to promote corporate rescue and give all creditors a stake in any insolvency proceedings. The two main changes which came into effect on 15 September 2003 were the (1) abolition of crown preferences (VAT, NI and PAYE), in an effort to free up more money for distribution to creditors, and (2) introduction of restrictions on charge holders to appoint administrative receivers (subject to a number of exceptions).

The holder of a floating charge entered into after 15 September 2003 which provides security, either on its own or with other security, over all or substantially the whole of the assets of the company, will only be permitted to appoint an administrator either in or out of court. Unlike an administrative receiver, an administrator must take into account the interests of all creditors and not just the charge holder who appoints them.

A charge entered into before 15 September is not subject to this restriction, neither are charges over only part of the company's assets. Likewise, a charge that falls within the ambit of one of the exceptions will not be subject to the restrictions. Although the Enterprise Act allows the restrictions to be backdated and capture pre 15 September 2003 charges the Government has given an assurance this will not occur.

The new personal insolvency provisions are due to come into force on 1 April 2004.

Administrator's Duties to Creditors

The Court of Appeal in Kyrris and another v Oldham and Ors [2003] All ER (D) 45 (Nov) held that an Administrator of a company owes the same duty of care as the directors of the company, in the absence of exceptional circumstances. As to the duty of care owed to creditors the Court of Appeal held that an Administrator only owes a general duty of care to creditors, to the same extent that such a duty is owed by the directors of the company. Further the Administrators duties extend only to the company; an Administrator has no duty of care to the shareholders.

Brand merchandise receives added protection

The Court of Appeal's ruling in Arsenal Football Club plc v Reed 2003 EWCA Civ 96 has lifted the hopes of trade-mark owners who face a constant battle against unofficial replicas of their goods. It is the latest stage in an on-going legal battle between Arsenal Football Club and Mr Matthew Reed, a stall-holder in Arsenal's grounds who for 31 years has been selling unofficial Arsenal merchandise to fans.

As we reported in March 2003, Arsenal FC sued Mr Reed for trade-mark infringement. Laddie J, at first instance, held that Mr Reed's use of the Arsenal marks on his goods were mere "badges of support, loyalty or affiliation", i.e. non trade-mark use. However, he then had to consider whether such 'non trade-mark use' could be held to infringe the registered trade-marks of Arsenal FC, in accordance with section 10 of the Trade Marks Act 1994. Laddie J referred the case to the ECJ for a preliminary ruling on 2 issues arising.

The ECJ held that a proprietor of a registered trade-mark is entitled to prevent third parties from using, in relation to the same goods or services, identical signs which are "capable of giving a misleading indication as to their origin, provenance, quality or reputation".

As for the second question the ECJ then considered the "the aureole of uncertainty" regarding the notion of use as a trade-mark. The ECJ felt that an important consideration was whether the third party was attempting to commercially exploit the trade mark, and that if he was, then this would be an infringement. The reasons why the consumer buys the goods or services are irrelevant. If consumers who are given, or see Mr Reed's merchandise away from his stall are convinced that the goods are official Arsenal FC goods, this dilutes the trademark as the guarantee of origin is no longer so effective.

The case was referred back to the High Court. Laddie J held that the ECJ had acted outside the scope of its competence in reversing his finding of fact, and he was compelled to ignore its decision. He applied the ECJ's reasoning to his own previous findings of fact and held that Mr Reed had not infringed Arsenal FC's trade-marks.

Arsenal appealed to the Court of Appeal, and judgment was given on 21 May 2003. The CA held that Laddie J was wrong in his decision and found there to have been an infringement. Aldous J of the Court of Appeal felt that Mr Reed's submission was based on a particular type of use of the trade-mark, as opposed to looking at the interest of the proprietor's mark and whether it was liable to be affected.

Aldous J reasoned that "*the actions of Mr Reed meant that goods, not coming from Arsenal but bearing the trade marks, were in circulation*" and therefore "*affected the ability of the trade marks to guarantee the origin of the goods*". Another telling indication concerned Mr Reed's use of a disclaimer which stated that he was "suspicious that persons purchasing from him would, absent an explanation, believe that the goods came from Arsenal". Arsenal FC also produced evidence that consumers had complained to Arsenal about such use of its mark.

It is expected that Mr Reed will seek leave to appeal to the House of Lords. The decision, as it stands, is hugely important for all trade-mark owners selling brand merchandise. Trade-mark holders will be able to exert a greater element of control over the use of their trade-marks. Consumers, on the other hand, may not be so happy. The decision effectively puts unofficial traders out of business, and cheaper-priced replica goods will be taken off the shelf. Customers will be left with no choice than to purchase the brand merchandise.

Despite the consequences to the consumer, trade-marks exist to retain exclusivity and guarantee origin, and the Court of Appeal's decision reinforces this intention.

Olfactory trade marks

The recent decision of the ECJ in Case C-273/00 Sieckmann v Deutsches Patent- und Markenamt (Case C-273/00) has revived the debate on the possibility of registering a smell as a trademark and threatens to put a lid on all future olfactory trade-mark applications.

The Trade Mark Act 1994 states that a "trade-mark" means 'any sign capable of being represented graphically' and 'which is capable of distinguishing goods or services of one undertaking from those of other undertakings'. A registrable trade-mark can consist of words (including personal names), designs, letters, numerals or the shape of goods or their packaging.

The UK position

In the UK, signs which are not capable of "graphic representation" will be refused registration; however, various cases indicate that it is possible to register a smell as a trade-mark under the Act. The first of such successful applications was in Sumitomo Rubber Co in which the smell of beer on dart flights was allowed (trade-mark no. 2000234), and in Unicorn Products (trade-mark no. 2001416), which permitted the registration of the scent of roses on tyres. Then there was the important case of John Lewis of Hungerford Ltd's Trade Mark Application (trade-mark no. 2000169) which concerned the cinnamon smell of furniture. In this case, although the trade-mark was refused registration, the tribunal clarified that signs do not have to be visually perceptible in order to be capable of registration under UK law.

This was clearly a vital step, as visual perception and graphic representation have often been thought to be inextricably linked, and this created a barrier to the registration of olfactory trade-marks. Here it was held that an olfactory mark, in order to be successful, has to be "clearly and unambiguously" recorded in the application, but this was all the guidance that was given; the rest is guess work for the applicant.

The best indication of how applicants can assess their trade-mark is found in Chapter 6.6.3 of the Trade Marks Registry, which sets out when a "smell mark" will be registered:

- the smell is used as a trade-mark;
- it is not an inherent or natural characteristic of the good but is added by the applicant to identify the good;
- the public regards the smell as a sign which identifies the applicants' goods;
- the mark is represented graphically."

Despite these guidelines, there is yet to be a case before the UK courts which provides clear working guidelines on trade-mark applications for smells.

The position in Europe

In 1999 the Second Board of Appeal of the OHIM allowed registration of the "smell of fresh cut grass" for tennis balls, in the case of Vernootschap onder Firma Senta Aromatic Marketing's Application, [1999] ETMR 429; the smell was a "distinct smell which everyone immediately recognises from experience". However, this ruling was heavily criticised as it appeared to give little thought to the principle of graphic representation, indeed, in Sieckmann v Deutsches Patent- und Markenamt (Case C-273/00) paragraph 32, the ECJ called it a 'pearl in the desert'.

In the Sieckmann case the applicant, a German citizen, applied to the German Patent and Trademarks Office for an olfactory mark submitting a written description of the scent as 'balsamically fruity with a slight hint of cinnamon', together with a chemical formula and an odour sample. The trade-mark was refused because the Office did not believe that (1) the mark could be represented graphically such as to satisfy the requirements of the German Trade Marks Act and (2) did not believe it had distinctive

character. Mr Sieckmann appealed to the Bundespatentgericht who referred the case to the ECJ.

The Court held "*in respect of an olfactory sign, the requirements of graphic representability are not satisfied by a chemical formula, by a description in written words, by the deposit of an odour sample or by a combination of those elements*".

The reasoning appears to be that a trade-mark enables consumers to identify goods and services by their origin and quality. It is debatable whether a smell can ever be capable of doing this, as it is too subjective. A prime example would be two people smelling the same glass of wine: one could conjure up images of distant sun-drenched fields in Spain and warm spices, the other could find a sharper, fruitier scent. Not only does the consumer have to recognise a smell, but also associate it with a specific object.

Applications will also fail where the product is the scent itself, i.e. a trade-mark would not be granted for a perfume or aftershave simply because the product itself is the smell.

Furthermore, the Court felt that the general consumer would not be able to understand the chemical formula or link it to a particular smell. The chemical odour was held to represent the substance, and not the odour itself. The Court explained that registration of the formula, the sample and the description of the odour "increases the number of messages intended to identify the sign, and therefore the risk of different interpretations, which can result in greater uncertainty".

The consequence of the Court's decision is that it is now almost impossible to register an olfactory trade-mark due to the inherent barriers of graphic representation of a smell. It will be interesting to see how common law countries interpret the decision. The challenge will be to find an adequate means of graphically representing an olfactory trade-mark without using a chemical formula, a description, or an odour sample.

Further Clarity given to Legal Advice Privilege

The April 2003 decision of the Court of Appeal in the ongoing matter of Three Rivers District Council v The Governor and Company of the Bank of England [2003] EWCA Civ 474 narrowed the scope of legal advice privilege in circumstances were litigation is not a prospect (such as an inquiry).

The decision meant that only communications between the client and its legal advisers, and evidence of the contents of such communications, are protected. Information generated by an employee (or former employee) of the client stands in the same category as information obtained from a third party and does not attract the protection of privilege, unless the document prepared amounts to the actual communication to the solicitor.

The decision of Justice Tomlinson in the Three Rivers case in December 2003 has further clarified the extent of legal advice privilege.

The latest decision centred on the claimant's request for disclosure of documents between the defendant and its solicitors which related to assistance or advice on the way in which evidence and material should be presented to the inquiry. Relying on the Court of Appeal decision, the Court held that such presentational documents in a non litigious inquiry do not attract legal advice privilege and will be subject to disclosure. Such documents can be distinguished from documents containing advice as to what the client should do in light of its legal rights and obligations, the later being protected from production due to privilege.

These two decisions potentially broaden the range of documents that are subject to disclosure. Organisations must bear these decisions in mind when considering internally or externally, matters that do not fall within the scope of advice on their legal obligations or rights.

Are Arbitration Awards Public Documents?

A recent decision of the High Court has affirmed that arbitration awards are private documents. The case of Department of Economics, Policy and Development of the City of Moscow and Anor v Bankers Trust Co and Anor [2003] EWHC 1377 (Comm) dealt with an application to the Court by the defendants under section 68 of the Arbitration Act challenging the arbitration award.

The Court held that in light of the fundamental nature of arbitration which, unless there was agreement to the contrary, centred on privacy and confidentiality, that the decision raised no new points of law, the hearing was held in private under Civil Procedure Rule 62.10(3), and the parties intended the award to remain private. The arbitration award and the decision of the Court were to remain private documents.

The Court noted that even though the confidentiality that attaches to arbitration proceedings does not automatically transfer to Court proceedings challenging the award, publication of the Court's decision would damage the confidentiality of the arbitration proceedings, which amounts to special circumstances where the publication of the judgment would prejudice the interests of justice.

Are we reaching the right people?

If we have missed some members of your organisation who may find this newsletter of interest, please call us or e-mail us at contentiousbusiness@london.coudert.com and we would be happy to send them the next issue.

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