

United Kingdom: Court of Appeal Confirms Sale of “Grey” Goods Could be Found Criminal

By Ashford Tucker

R v C [2016] EWCA Crim 1617 (November 1, 2016, Ct. App.)

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On November 1, 2016, the UK Court of Appeal confirmed that sales of “grey” goods could be deemed a criminal offense. Prior to this decision, practitioners understood that sales of counterfeit goods could give rise to criminal liability, but it was not expressly clear that sales of grey goods could be treated in the same manner. In clarifying this issue, the Court affirmed the Crown Court at St. Albans’ decision in a preparatory hearing dealing with unauthorized sales of goods bearing well-known marks including RALPH LAUREN, ADIDAS, UNDER ARMOUR, JACK WILLS, and FRED PERRY, among others.

This decision significantly adds to the brand owner’s arsenal, because a criminal conviction could carry a ten-year prison sentence, and could subject a defendant to repayment of proceeds from criminal activity. Even so, as the Court noted, it can be difficult to establish that a defendant has committed a crime through the sale of grey goods.

To be clear, grey goods differ from counterfeit goods because grey goods are legitimately created and bear an owner’s registered trademark that was applied with the owner’s consent. It is the subsequent sale or distribution of grey goods that occurs without the owner’s consent. Counterfeit goods, by contrast, are “fake” products bearing a trademark that has been applied without the legitimate owner’s consent.

In this case, the appellants allegedly unlawfully sold within the U.K. branded goods manufactured outside the U.K., some of which were manufactured by authorized factories but subsequently were sold without the brand owner's authority. The specific goods at issue allegedly resulted from cancelled orders of substandard and/or excess products.

The relevant criminal statute, Section 92 of the Trademarks Act 1994, states in pertinent part:

(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 trademark, 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).

The issue before the court was whether the sale of grey goods conceivably could create criminal liability under sections 92(1)(b) or (c), or if these sections applied only to counterfeit goods. Appellants argued that sections (b) and (c) could not apply to grey goods because section (a) referred to application of a sign without the consent of the proprietor, while grey goods instead bear a sign applied with the proprietor's consent. In deciding that sales of grey goods could create criminal liability under this statute, the Court rejected the appellant's arguments as flatly contrary to the plain wording of the statute and relevant authority (considered in due course in the opinion), given that sections (b) and (c) unambiguously apply to goods or packaging that merely bear a sign, whether or not applied to goods by the defendant.

In reaching this decision, the Court also discussed the inherent difficulties in establishing a successful criminal case, which some commentators also have noted. Application of the criminal section differs from the corresponding civil sections of the Trademarks Act in a few notable ways. First, as the Court noted, the prosecution must prove its case "to the criminal standard," or beyond a reasonable doubt, which is a high evidentiary burden. Further, there is a mental element: The defendant must act "with a view to gain for himself or another, or with intent to cause loss to another." Additionally, Section 92(5)

provides a defense based on objectively reasonable behavior, in cases where the defendant can show that he reasonably believed his use of the mark was not trademark infringement. Further, the Court acknowledged that it was questionable whether the phrase “likely to be mistaken for” should be more narrowly construed than the corresponding civil section’s consideration of the “likelihood of confusion on the part of the public.”

Finally, it bears noting that the Court’s decision in this case expressly does not extend to parallel imports, which the Court considered to be goods bearing a registered trademark that are created and sold in a particular jurisdiction with the trademark owner’s consent, and then subsequently sold in a different jurisdiction without the trademark owner’s consent (“What is, however, not alleged in this case, it should be noted, is that the defendants were engaged in the United Kingdom in importing and selling branded goods which were both manufactured and sold with the authorisation of the proprietor in a country outside the European Union (sometimes also known as parallel imported goods).”). The goods at issue in this case never were authorized for sale anywhere by the mark owners and thus were not parallel imports in the Court’s definition, so the Court did not need to reach the issue of whether sales of such parallel imports could be deemed criminal.

Primary Contacts

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