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A Legal Update from Dechert's Intellectual Property Group

## Bursting Bubbles – O2 Loses Trade Mark Battle

*Brand managers have good reason to be fearful following the outcome of a recent High Court case which provides a thorough examination of the current judicial interpretation on certain issues of trade mark law. Its effect is likely to increase the vulnerability of brands to negative coverage through their inclusion in competitors' "comparative advertising" (the practice of making comparisons between the advertiser's goods and services and goods and services of competitors).*

### Ad Attack on O2

Brands are big business. O2 spent £320 million in their first two years of operation promoting their brand, with its constituent elements of goodwill, trade marks and copyright. These are recognised and protected by the English law, but, as O2 found out to their cost, "to the extent that a brand is greater than the sum of the parts that English law will protect, it is defenceless against the chill wind of competition". This revealing statement by Mr Justice Lewison at the start of one of the lengthiest and most significant judgments for marketers in the courts, poses significant questions for the way in which brand identity is managed in England & Wales.

O2 Holdings Ltd ("O2") and another v Hutchinson 3G Ltd ("H3G") involved two leading British brands. 'O2' was spun out of BT in 2002 and has since gone on to be one of the most carefully cultivated images in the country, with their well known logo adorning such sporting icons as the World Cup-winning England rugby team and the English Premier League Champions, Arsenal. O2's opponent, '3',

is more of a newcomer, forming part of multinational Hutchinson Whampoa Limited (former owners of the Orange mobile phone network) as they began their assault on the UK 3G phone market.

The dispute between the two centred on a series of advertisements run in both print and on television by H3G comparing their pay-as-you-go tariff "ThreePay" with its leading competitors. The style of the television advert was based around a stream of white bubbles being dispersed over the screen to form the basis of a series of price comparisons between the products. White bubbles, however, also formed a key part of O2's brand - they had eleven registered trade marks of white bubbles registered as part of their brand identity. These bubbles were always used in conjunction with a graduated blue background.

O2 claimed that H3G's advert infringed their bubble trade marks (which raised the question, in turn, of whether these had been validly registered). They also claimed that the comparative advertising campaign fell foul of the Comparative Advertising Directive ("the Directive") in that it was gratuitous and unnecessary in its use of their trade marks. The Directive allows the use of competitor's trade marks where it is "indispensable...to identify the goods or services of a competitor" provided that such use is not misleading and the comparison is objective.

Mr Justice Lewison's judgment provides a thorough examination of the current judicial interpretation on issues of trade mark law and comparative advertising.

## Validity of Registrations

Lewison examined the validity of the registration of O2's 'bubbles' as regards the distinctiveness of the marks i.e. whether they are capable of acting as a badge of origin. In considering the distinctiveness of the trademarked bubbles, Lewison considered whether they had both 'inherent' distinctiveness and 'acquired' distinctiveness.

For a mark to possess inherent distinctiveness it must be capable of 'identifying origin even before the public is educated that it is so used for that purpose'. In determining whether a mark is distinctive the question must be posed in the context of the category of the goods or services for which registration is sought. As such, it was not important whether bubbles in general are distinctive of mobile phones or telecommunications. Indeed Lewison noted that bubbles are used in a number of campaigns including Aero chocolate bars and British Airways flights. However, Lewison decided that the trademarked bubbles in question had inherent distinctiveness as he believed that if an average consumer were to see the trademarked bubbles applied to packaging of mobile phones, or advertisements for mobile phone service, then the consumer would consider that the images were being used as a badge of trade origin.

As regards acquired distinctiveness he decided that the acid test was whether "as a result of the use of the mark, a significant proportion of the relevant class of persons identifies the goods or services in question as originating from a particular undertaking". Applying the recent ECJ decision in *Société des Produits Nestlé*, Lewison decided that the bubbles had acquired distinctiveness out of their use in conjunction with the graduated blue background.

Mr Justice Lewison then went on to consider recent case law on what constituted infringement. The clear trend, he held, was to recognise that trade marks went beyond merely serving as an advertising function but also "protected the quality of the goods, the reputation or renown of the producers". Consequently "use of the mark on the genuine goods is capable of amounting to an infringement". The combined effect of these two rulings meant that O2's bubble trade marks were validly registered and the use of the

bubbles in the advert by H3G therefore constituted prima facie infringement, even if the advert taken as a whole differentiated between the products.

## Comparative Advertising

The case consequently hinged on whether H3G had met the requirements of the Directive. These are that the advertisement is not misleading, compares similar goods, objectively compares prices, does not create confusion in the market place between the competitors' goods and does not discredit or take unfair disadvantage of O2's trade marks. In contrast, s10(6) of the Trade Mark Act 1994 allowed the use of other's companies' trade marks as long as it is "in accordance with honest practices in industrial or commercial matters...[and does not] take unfair advantage of, or is detrimental to, the distinctive character or repute of the trade mark". In deciding that the key legislation was the Directive, Mr Justice Lewison effectively overruled previous case law from before the Directive was in force in the UK.

He also ruled that the Directive's requirement that the use of trade marks be "indispensable" meant indispensable "in order to make comparative advertising effective". Where the overall context of the advert complied with the central thrust and requirements of the Directive, the courts should consequently be reserved in interfering with the subordinate advertising 'fluff'. His conclusion examining each of the key elements of the Directive was that H3G had complied with the Directive and so H3G did have a valid defence to the trade mark infringement which he had already established.

## Brand Security

The implications of this judgment (which O2 may appeal) are profound for the advertising world. By placing the central emphasis on the Directive, and rejecting O2's claim that H3G's use of their trade marks was disingenuous, Mr Justice Lewison has provided a strong opportunity for weighty and substantive comparative advertising. His view that "comparative advertising is necessarily robust; and within the confines of the Comparative Advertising Directive, advertisers should, in my judgment be permitted to do what is needed to make the comparative advertisement effective" must count as a distinct cause for concern for those who work so hard to create, build and maintain the integrity of their brand.

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## Practice group contacts

For more advice on any of the above, please contact the lawyer listed or the Dechert lawyer with whom you regularly work.

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