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CHARACTER MERCHANDISING IN THE U.K., A NOSTALGIC LOOK

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INTRODUCTION: THE WORLD-WIDE TREND TOWARD MORE EXPANSIVE INTELLECTUAL PROPERTY RIGHTS

No one who follows the media today will fail to realize that character merchandising is an ever-expanding multibillion dollar business. The courts have been sympathetic to this burgeoning business and the protection of all kinds of trade identities has become a problem that is expanding progressively. However, cumulative protection of character rights is only one aspect of a much larger phenomenon taking place in the protection of trade identity. For example, under various state laws, there is a progression occurring in publicity rights¹ as well as state anti-dilution statutes.² Additionally, under federal law, section 43(a)³ of the Lanham Act seems to increase in scope daily as the courts become ever willing to entertain unconventional notions concerning the likelihood of confusion while also relaxing secondary meaning requirements.⁴ Thus, the boundaries of protection continue to expand in an endless ratcheting of protection to encompass more and more kinds of trade identities.

This expansion in trade identity law is a discomforting and negative development for several reasons. First, individuals must use care in deciding the amount of monopoly power which they will afford those who retain intangible property rights. This is important because the consumer, in any monopoly, is forced to pay more than what would be a competitive price in order to gain ac-

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1. White v. Samsung Elecs. Am., Inc., 971 F.2d 1395 (9th Cir. 1992), reh'g denied, 989 F.2d 1512 (9th Cir. 1993), cert. denied, 113 S. Ct. 2443 (1993) (holding that an ad depicting a robot dressed in a wig, gown, and jewelry was selected to resemble television show hostess, Vanna White, and violated publicity rights under California law).
2. Ringling Bros. and Barnum and Bailey Combined Shows, Inc. v. Celozzi-Ettleson Chevrolet, Inc., 855 F.2d 480 (7th Cir. 1988) (holding that a car dealer slogan “Greatest Used Car Show on Earth” dilutes Ringling’s famous circus slogan).
4. See, e.g., Taco Cabana Int’l, Inc. v. Two Pesos, Inc., 932 F.2d 1113 (5th Cir. 1991) (holding that restaurant decor can be protected without proof of secondary meaning if inherently distinctive).
cess to the intangible property which is protected under copyright or trademark law. Additionally, intangible property, unlike physical property, is inexhaustible once produced; thus, an infinite number of people can use an arrangement of colors on a package without depriving the owner or creator or its use. Consequently, from a consumer welfare standpoint, there must be a solid justification in order to confer on a single person a species of property that is immune from waste or destruction. This justification, of course, is the incentive to create. It is thus argued that if intangible property is not adequately protected, its creator may not obtain an adequate return on the investment and will, as a consequence, have little incentive to produce products of the mind for our greatest needs. For this reason, an ideal system of intellectual property law should seek to balance an optimal dissemination and use of property on the one hand with an optimal incentive to create on the other. 5

Second, unlike physical property—land or chattels—intangible property, by its very nature, has vague boundaries. In order to create and maintain an efficient system of intellectual property rights—or any kind of property rights for that matter—an individual must be capable of knowing who owns what. Thus, a major goal of any intellectual property regime is to transform the inherently vague boundaries of intellectual property into something which is more concrete. Buyers and sellers should be able to know exactly what intangible property is being transferred and how much it is worth if the property right is relatively certain in dimension and scope. Once such a system is in place, third parties will be able to determine when they are infringing upon another’s rights. In other words, to organize an efficient market, an individual must determine the metes and bounds of the property right in question. 6 This problem in determining boundaries cuts across all intellectual property law as many of the provisions under patent, trademark, and copyright laws reflect this struggle to demarcate. Examples of this boundary-setting struggle are found in such doctrines as limited times protection in copyright and patent law and the requirement of secondary meaning for non-distinctive marks in trademark law.

A third reason to conclude that the expansion of trade identity law is a negative development concerns the issue of the proper

place of the public domain in any intellectual property regime. Consumer welfare is enhanced by a robust, well-endowed public domain from which creative minds can produce new works by building on the ideas of others. Unduly expansive monopolies over intangible property rights restrict the creation of many new works due to a lack of access to these intangible properties. In sum, an efficient system of rights encourages the optimal production and distribution of information such that a well-stocked public domain develops from the efforts of past creators.

That being said, the trend towards more expansive protection in the United States, although it runs counter to an efficient system of intangible property rights, continues relentlessly. Other parts of the world have similarly replicated this general trend towards a more expansive coverage, a trend which manifests itself on both a global and a regional basis. With the successful completion of the “General Agreement on Tariffs and Trade” (GATT) Uruguay Round on December 15, 1993, the clear message of Trade Related Aspects of Intellectual Property (TRIPS) is toward greater protection as the international norm. The intellectual property provisions adopted by the GATT are those which are advocated by both the U.S. administration and by lobbyists for a worldwide coalition of intellectual property owners. On a regional basis, there is the North American Free Trade Agreement (NAFTA), which, on its own, imposes high standards of protection on all forms of intellectual property. On the other side of the Atlantic, the same phenomenon of regional collaboration has been taking place for some time in the harmonization of intellectual property laws among members of the European Community. One recent example of this

8. The GATT is an international arrangement that included over ninety countries participating in multilateral trade negotiations involving ways to encourage trade among nations. The latest round of GATT negotiations, the Uruguay Round, placed intellectual property prominently on the agenda. The intellectual property provisions of the Uruguay Round called “Trade Related Aspects of Intellectual Property” (TRIPS), created minimum standards for the protection of intellectual property as a part of the GATT. See Marshall A. Leaffer, Protecting United States Intellectual Property Abroad: Toward A New Multilateralism, 76 IOWA L. REV. 273, 277 (1991).
9. The TRIPS provisions of GATT can be found at 33 I.L.M. 1, 83-111 (1994).
harmonization is the 1989 Directive for Trademark Harmonization in the European Community, which will bring the United Kingdom, a last bastion of constrained trademark and trade identity rights, into line with other European Community members. In comparison to British trademark principles, the other member states view trademarks as assets of a company rather than as a system that protects the consumer against marketplace deception.¹¹

Before the British trademark and unfair competition laws pass into history, it is necessary to examine this body of law which takes a more constrained approach than either American law or the current trend taking place world-wide. The main focus of this paper is on character merchandising, particularly the protection of intellectual property rights surrounding fictional characters under trademark and unfair competition laws. The British pre-Directive approach, based on the consumer confusion model of trademark law, is closer to the proper purpose of a trademark system, which is to protect the consumer against confusion in the marketplace. In addition, the British approach demarcates property rights in a clearer manner than the continental approach. The difference between the British approach and the approach taken by the rest of the developed world is vividly illustrated in the Holly Hobbie¹² case.

**Trade Mark Licensing in the United Kingdom: The Holly Hobbie Case**

In Holly Hobbie, the American Greetings company intended to expand its operations in the U.K. by registering the name “Holly Hobbie” as a trademark under section 17 of the Trade Marks Act of 1938. They used the mark extensively on greeting cards and other stationary items, and following the enormous success of the mark, they decided to extend it to other goods in which they had never traded, nor had ever intended to trade. American Greetings filed twelve new trademark applications covering goods as diverse as toilet products, tableware, lamp shades, and silver boxes. Because they did not intend to use the mark itself, but rather to license it, the American Greetings application also in-

¹¹ The Harmonization Directive provides the broad outline for permissible trademark license agreements. See Article 8 of the Harmonization Directive for the licensing provisions. For the Directive, see 1989 O.J. (L40)1.

¹² *Re American Greetings Corp's Application (‘Holly Hobbie’) 1 W.L.R. 189, 1 ALL E.R. 426, R.P.C. 329 [1984].*
cluded the licensees with registered user agreements.

The "Holly Hobbie" trademark application was refused, but before discussing the reasons behind the refusal, one must be familiar with the "registered user" practice, a peculiar feature of British trademark law. Section 28 of the Trade Marks Act allows the licensee of a registered mark itself to be registered as a registered user agreement. The registration may cover all or any of the goods and may contain conditions or restrictions concerning the way in which the user may deploy the mark. However, registration of a user is not a mere formality: Once the agreement is filed, the Registrar must decide whether it is against the public interest. In making this decision, the Registrar focuses on whether the owner of the trademark continues to retain a measure of control over the use of the mark by the user. If sufficient control exists, then the Registrar will view the mark as indicating some connection in the course of trade with the registered proprietor.

Additionally, the 1938 Act permits registration unless it would "facilitate trafficking" in the mark. The term "trafficking" is vague and is defined in various ways. Despite the lack of a precise definition, trafficking in a trademark context generally conveys the notion that the trademark owner is dealing with the trademark primarily as a commodity, rather than using the mark to identify or promote merchandise in which the proprietor of the mark is interested. If no real trade connection exists between the proprietor of the mark and the licensee of his goods, then the trademark owner, by granting a license, is considered to be trafficking in the mark.

The application in Holly Hobbie was refused throughout each level in its journey through the British administrative and judicial systems on grounds that American Greetings was trafficking in the mark. The Assistant Registrar was the first to refuse the application and this decision was upheld by the Chancery Division, the Court of Appeal, and finally, the House of Lords. As a result of the refusal of the trademark application, no protection was given for the name "Holly Hobbie" in its extended application. However, not everyone on the court agreed with this decision, as the dissent predicted such a decision would open the whole field of character merchandising to piracy. On this basis, the decision has been vigor-

14. Id.
15. For a summary of the various views on trafficking, see Stephen Bigger, Notes From Other Nations: Great Britain, 74 TRADEMARK REP. 175, 177 n.8 (1984).
ously denounced in scholarly writings.  

After *Holly Hobbie*, licensing continues to be legitimate under British law since registration of a licensee as a registered user is allowed under section 29(1)(b) of the 1938 Act. The courts have held that such a registration is only permitted where there exists a real "trade connection" between the proprietor of the mark and the licensee. Thus, if there is no proximity between the proprietor and the goods, as required by section 68(1) of the Act, the license amounts to trafficking. Acting on such a license will result in the repudiation of the mark accruing to the licensee. As a result, the mark will then become deceptive under section 11 and may be removed under section 32.

For a valid license, a clear connection in the course of trade must exist between the proprietor of the mark and the goods which will carry the mark. This connection must be brought about by actual, rather than potential, quality control.  

Otherwise, the trademark license will constitute trafficking in a trademark and thereby render the mark deceptive. While quality control provisions in the registered user agreement can be used to demonstrate this connection, it has been held that the quality control provisions, in themselves, will not constitute the necessary "trade connection." In the *Holly Hobbie* case, for example, the applicant was unable to show strict quality control, partly because of the enormous scale of the planned commercial activities.

In sum, registered user provisions constitute a considerable hurdle to the character merchandiser. One way over this hurdle is to show that the proprietor of the mark is able to maintain strict quality control over the articles to which the mark is applied. Such quality control demonstrates a sufficient connection in the course of trade. In *Holly Hobbie*, however, the applicant was unable to show this, due to the enormous scale of the planned commercial activity.

Because the *Holly Hobbie* case has the effect of denying trademark protection to the more extensive aspects of character merchandising, it has generated much criticism from both industry and the bar. While pressures were such that it became probable that section 28(6) would eventually have been repealed, developments in the European Community acted to speed up this process.


The Council of Ministers of the European Community adopted a Directive aimed at harmonizing trademark law throughout its member states. In complying with the Directive, British law will not undergo a monumental revision, but certain changes will loosen some of the more restrictive aspects of the law. Accordingly, the new U.K. Trade Marks Bill, introduced in the House of Lords in November 1993, is now making its way through Parliament. The Bill, expected to be in force by November 1994, is awaited eagerly by the character merchandising industry. The new Act enables a merchandising company to register its trademarks while at the same time retaining a simplified version of the registered user system. The Registrar will require certain prescribed details of the license, but there will be no substantive verification. Additionally, the anti-trafficking provisions of section 28(6) will be repealed, an aspect of the Act which is most important to the character merchandiser. The Act also provides that an unregistered license has no legal effect against third parties. Thus, one who subsequently acquires a trademark is not bound by a license of which he is not aware.

In sum, the new British law will more closely resemble trademark law found in the rest of the continent and will, in effect, render the Holly Hobbie case obsolete. As such, it is certainly a favorable development for international character merchandisers, who will be able to license their names and images and obtain trademark protection over a wide range of products without the taint of trafficking.

Passing Off

We have seen the traditional resistance of British law to allow wholesale character merchandising within the formal trademark registered user system. In a parallel fashion, the British courts have narrowly defined who has standing to use a passing off theory. As a general proposition, the tort of passing off provides that

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no one has a right to represent his goods as being the goods of another. Falling under the broader law of unfair competition, the tort of passing off has as its purpose the protection of the goodwill which a trader develops with his customers. To avail oneself of an action in passing off, the character merchandiser, or any other trader, must establish a reputation in order to build goodwill under a symbol of identity. A new entrant who has not yet built goodwill in a trade identity will not succeed in bringing an action under a passing off theory. Thus, a new entrant needs to establish goodwill under a distinguishing mark so as to show a basis for finding that the defendant has created some confusion as to its source in the public mind. Under these general principles, courts have prevented the character merchandiser from bringing a passing off action unless there is a common field of activity in which the plaintiff and the defendant operate. Thus, another trader in a different line of business could exploit the name and reputation of a fictional character without recourse by the original user. When this occurs, the character merchandiser is unprotected unless it is able to prove that his business is in some way related to that of the defendant.

The case of *Wombles, Ltd., v. Wombles Skips, Ltd.* provides an excellent example of these concepts involving the merchandising of fictitious characters. The Wombles were characters originated in a book and which became extremely popular as a result of a television series. The plaintiff, who owned the copyright on the books and drawings of the creatures, commercially exploited them on a large-scale basis. The defendants, who manufactured garbage containers, decided to capitalize on the Wombles’ image as extremely tidy beings and to adopt the name “Wombles” as part of their company name. The court rejected the plaintiff’s passing off theory, finding there to be no common field of activity between the plaintiff’s and the defendants’ businesses. Even though the plaintiff had licensed the Wombles’ name and picture for all sorts of goods, they were not using the name on garbage containers.

In the realm of passing off, British judges have been reluctant to regard character merchandising as a business at all, and have denied that the public is even aware of name licensing, a position which was taken in the *Kojakpops* case. In *Kojakpops*, Universal City Studios owned the rights to the television series *Kojak*, in which a character played by Telly Savalas often had a round lollipop in this mouth. Universal Studios had licensed an English com-

20. FSR 488 [1975].
21. Tavener Rutledge, Ltd. v. Trexapalm, FSR 479 [1975].
pany to use the name "Kojak" on candy in England which, in turn, licensed the candy to another company which started making lollipops using the name Kojak. However, in the meantime, another English company had already started marketing lollipops called "Kojakpops," selling millions of them and building goodwill and a reputation. The company producing the "Kojakpops" successfully sued, under a passing off cause of action, to enjoin the sale of the Kojak lollipops. The official licensor of Universal Studios was unable to assert its license agreement because there was no actual or potential field of activity between the owners of the television series and the plaintiff's business. The owner of the series, Universal Studios, was in the business of producing television films, whereas the licensee of the Kojak name was in the business of producing lollipops. According to the court, the public would not believe that there was any overlap between the film and the lollipop industry.

Changes in Character Merchandising

The Wombles and Kojakpops cases do not constitute the last word on the use of the passing off doctrine by character merchandisers, as is evident by the more recent Teenage Mutant Ninja Turtles case, which has been heralded by commentators as a counter-trend to these "anti-merchandising" cases. In Turtles, the plaintiff created and marketed cartoons, films, and videos containing the characters, and part of the business involved licensing the reproduction of the characters on goods sold by licensees. The defendant made drawings of the figures and began to license them to T-shirt manufacturers. In response to a suit for infringement and passing off, the defendant asserted that one could not claim intellectual property rights in the name or the idea of the Turtles. The court found the passing off action to be justified, and issued an injunction, reasoning that the use of the Turtles name and image by the defendant misrepresented to the public the origin of the garments. The court stated that a substantial number of the buying public would believe that the reproduction of the Turtles was the result of a licensing agreement between the owner of the rights and the defendant. If the defendant continued its use of the Turtles name and sold inferior goods, then it would compromise the plaintiff's goodwill. The Turtles case appeared to be a break from

23. See, e.g., Seung Chong and Spyros M. Maniatis, The Teenage Mutant Hero Turtles Case: 'Zapping' English Law on Character Merchandising Past the 'Embryonic' Stage, 7 EIPR 253 [1991].
a series of cases hostile to the character merchandiser. Unlike pre-
vious courts, this English court accepted the theory that the public
is aware of character merchandising. To some, it reflected the in-
fluence of a more progressive interpretation of passing off found in
other Commonwealth countries, such as Australia.24

The Wombles and Kojakpops cases are distinguishable from
the Turtles case as they involved names (Wombles and Kojakpops)
only, whereas the Turtles case involved images as well as the name
itself. Essentially a copyright case, Turtles should have been de-
cided on the copyright issue alone.25 Thus, the court's views on
passing off may only constitute dicta. It would seem that where a
character merchandiser uses names, there must still be a common
field of activity to gain protection from infringers. Under British
law, the only way a character merchandiser can establish a suffi-
cient link is to exercise a form of control over the goods to which
the character or its name applies, and this link must be sufficient
enough for a significant amount of the public to be aware of it.

CONCLUSION

The purpose of this article was to take a last and admiring
look at a body of law that will surely soon change. It appears that
the more constrained view of character merchandising in the
United Kingdom will likely fall by the wayside. This will occur
once the new British Trade Marks law, which modifies the regis-
tered user provisions of the 1938 Act, becomes effective. Similarly,
the Turtles case may also indicate major changes in the require-

24. For an overview of passing off and character merchandising in Australia see S.G.
Corones, Basking in Reflected Glory: Recent Character Merchandising Cases, 18 AUSTRAL-
IAN BUS. L. REV. 5 (Feb. 1990); Andrew Brown, Character Merchandising: A View from
Australia, INTELLECTUAL PROPERTY JOURNAL 93 (1985); Jennifer Duxbury, Ninja Turtles
versus Crocodile Dundee—A Comparison of Australian and English Approaches to Unfair
Competition, 11 EIPR 426 [1991].

25. There is less protection for a character merchandiser under English law than
under U.S. law. Although the focus here is on trademark and unfair competition law, copy-
right law provides a strong alternative form of protection for the character merchandiser. In
copyright law, the presentation of a fictional character is an artistic work within the Copy-
right Act. Thus, a wholesale duplication will amount to an infringement much like in the
U.S. For example, if a company wishes to sell a mug which has the picture of Mickey Mouse
applied, or if a doll or three-dimensional figure is made from cartoon drawings of Popeye,
copyright infringement may be found. This may suffice for cartoon characters and other
pictorial representations, but literary characters are unprotected outside the work in which
they appear. Similar to the United States, no character right per se is recognized in British
copyright law. As we saw in the Holly Hobbie case, protection was sought for a name, and as
a result, copyright protection was inappropriate. In addition, copyright does not protect ti-
tles of literary works.
ments of deception and a common field of activity in the law of passing off. In regards to the common field of activity requirement, the push for change is coming less from a harmonization of law by the European Community than from other areas of the commonwealth, namely Australia, where an expansive notion of merchandising rights, much like what we have seen in the United States, has developed over a number of years.

In conclusion, it seems that these trends toward more expansive protection of the character merchandiser occurring in the U.K. are not isolated to one country whose laws are not in accordance with the European Community. Rather, these changes occurring in the U.K. are indicative of a larger world-wide trend, where rights over intangible property are expanding progressively and where consumer welfare, supported by an enriched public domain, is lost in the rush.

26. Pacific Dunlop v. Hogan & Others, 87 ALR 14 (1989) (holding that a cause of action in passing off is complete as soon as the relevant misrepresentation is made, even though no actual deception and damage to the plaintiff is shown to result from it). See generally, Stephen C.G. Burley, Passing Off and Character Merchandising: Should England Lean Towards Australia?, 7 EIPR 229 [1991].