

Trade Mark Infringement with an Apple Twist

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*Apple Corps Ltd. v. Apple Computer Inc*¹ may not have broken any substantial, or new, legal ground, but it may certainly go down in judicial history as the only decision where the presiding judge felt he may need to be excluded on the basis of owning an iPod.² While one UK IP lawyer has stated that "the case may have seemed glamorous because of the litigants...(but) really came down to the interpretation of a contract",³ Justice Mann's decision exemplifies modern IP in the courtrooms, where old agreements must be interpreted against new technologies that were not predicted at the time was entered into.

Facts

The claimant, Apple Corps ("Corps") is a record label that is owned by and at times referred to interchangeably with The Beatles. The name "Apple Corps" was formally adopted by the company in 1968, as well as the symbol of a sideways view of a whole green apple. This "Apple" symbol was registered as a trade mark in 1968. The name Apple Computer ("Computer") is more familiar to modern audiences, particularly given its commercial success in recent years, and few would fail to recognise its apple trade mark, a side view of an apple with a bite taken out of it. Given these two high-profile companies both sought to use the same fruit trade mark, difficulties inevitably ensued, and a number of agreements were drafted over the years to ensure that Corps was able to exclusively exploit its mark in the music industry.

In 1981 the pair entered into an agreement regarding use of the apple trade mark, but Corps commenced litigation against Computer in 1989 leading to, after 100 days at trial, the drafting of a new agreement between the pair. According to Mann J, this Trade Mark Agreement, dated 8

October 1991, "provided a new regime to avoid the conflict of the parties' respective marks and allotting to each party their own areas of exclusive use."⁴ Computer paid Corps over US\$26 million as part of the agreement.

The agreement defined for each company particular "fields of use" for their Apples. Section 1.2 defined Computer's field of use, namely electronic goods, data processing services and any ancillary services. Section 4.1 of the agreement then allowed Computer to use its apple marks "on or in connection with goods and services in its field of use." Similarly, section 1.3 defined Corps's field of use for its marks to be the Beatles, Corps' catalogue and artists and "any current or future creative work whose principal content is music and/or musical performances; regardless of the means by which those works are recorded, or communicated, whether tangible or intangible."⁵ Section 4.1 gave Corps the worldwide right to use its marks "on or in connection with goods and services" in this field of use.

While Mann J did not detail many particulars of the agreement, he did emphasise section 4.3 of the agreement, which stated that "the parties acknowledge that certain goods and services within the Apple Computer Field of Use are capable of delivering content within the Apple Corps' field of use." This section essentially allowed Computer to use its marks in connection with goods or services aimed at delivering content within Corps' field of use.

The Dispute

In January 2001, a decade after the parties executed this agreement, Computer introduced its now-famous iTunes software, and in October introduced the world to the iPod. Two

years later, in 2003, the online iTunes Music Store was launched, as stated by Mann J, "to provide a commercial but legitimate source for downloaded music."⁶ This was first accessed through the website applemusic.com, but is now accessible through either iTunes software or the website itunes.com, where the software can be downloaded.

While in development, Neil Aspinall, the executive officer of Corps, witnessed a private demonstration of the software, but refused to authorise Corps' content being sold through the iTunes Music Store because Aspinall "did not like the appearance, and perhaps the nature, of the product."⁷ Corps later decided that the iTunes Music Store constituted a breach of the 1991 Trade Mark Agreement, as Corps felt it was solely "entitled to use its mark on or in connection with music content and Computer is not"⁸, given the appearance of Computer's logo on iTunes Music Store.

Evidence Before the Court

In order to evaluate the claims of Corps, it was necessary for Justice Mann to undertake a detailed analysis of a number of Computer's services and commercials. His Honour first described the iTunes music software, stating it was "capable of standing as a self-contained jukebox"⁹ where music could be uploaded or downloaded through a variety of mechanisms. His Honour further noted the features of the iTunes music software and where and when Computer's logo is featured on the software in relation to music – essentially when a musical track is not being played or, for example, a CD is not being burned. Chic's 1970s hit "Le Freak" was played in the course of the trial as an example of how iTunes operated.¹⁰

Corps' arguments, however, were not aimed at the iTunes music software on

its own, but claimed the infringements arose when a user accessed iTunes Music Store via the Internet. In the Music Store, Computer's Apple is constantly on the screen unless, for example, a track is being downloaded, and, after the download has been completed, the apple logo returns. The appearance of this Apple on iTunes Music Store "while the store is on screen and being accessed...is said to be a (and indeed probably the principal) breach of the TMA."¹¹ According to Corps, this use was "a use on or connection with musical content."¹² Computer claimed, however, that both iTunes Music Store and the track itself displayed sufficient information to inform a user that Computer did not own any rights in the music.¹³

The format of music files available on iTunes Music Store and the techniques used to achieve such formatting were also raised by Corps as evidence aimed at counteracting Computer's arguments concerning the iTunes Music Store. Musical files sold via this service are in a particular format using Apple Advanced Audio Coding (AAC).¹⁴ Many readers who use iTunes and iPod will be familiar with this unique format that uses encryption at two stages to ensure control of the music, for example, to ensure that the purchaser can only play that particular song on a limited number of computers. Corps claimed that, while this requirement itself did not constitute a breach, the combination of technical measures that Computer required for its musical files – including AAC, the use of Fairplay DRM to ensure control, and information added to the tracks via the metadata, were all further evidence that iTunes Music Store was not merely a service for music.¹⁵

Corps' other arguments involving iTunes Music Store were aimed at the exclusive tracks and collections and artists' playlists. In addition, Corps also relied on as evidence, Computer's advertising and publicity of iTunes and iPod. Four Computer television commercials were played, with Corps claiming these established a breach of the Trade Mark Agreement. Several of these videos would be familiar to readers, and the videos themselves

actually serve to track the evolution of iTunes Music Store, from its early days on the *applemusic.com* website to the stand-alone software that, when combined with the iPod, has changed the face of modern music services. The four commercials were:

- A middle aged man holding and listening to an iPod, dancing to The Who's "My Generation". The website *AppleMusic.com* is displayed at the end¹⁶
- Shots of the members of U2 mixed with Apple's "silhouette" dancer with an iPod and white headphones, advertising U2's new album exclusive to iTunes, plus a frame featuring the words "iPod and iTunes"¹⁷
- Coldplay's new album and exclusive tracks available on iTunes, featuring band members with *iTunes.com* at the end. This ad was only aired in the United States, just once, after an episode of the comedy series *Saturday Night Live*¹⁸
- A "heavily silhouetted" Eminem performing against a colour background, advertising his "Curtain Call" album, and iTunes and iPod¹⁹

Corps also tendered evidence of "matters lending colour to the alleged breaches", including a speech by Steve Jobs, Computer's CEO, noting that Computer had won a US Grammy Award and how Computer had "nailed" music on the Internet.²⁰

Analysis of the Agreement and Breach

This case, however, did not only involve an analysis of Computer's products. With the primary question being whether the Trade Mark Agreement had been breached, Justice Mann then considered the facts behind the agreement and summarised the arguments of both Corps and Computer on the construction of the agreement.

Although there were not a large number of facts surrounding the history of the agreement, His Honour did make an interesting statement regarding the technological advancements that had occurred since the execution of the agreement:

"Personal computers had been in fairly widespread use for a number of years, but the Internet as we now

know did not exist, and the large scale transmission of computer data down ordinary telephone lines to the ordinary consumer was unknown...accordingly, the current state of play, in which the downloading of data (whether documents, pictures, videos or other forms) is now widely understood and appreciated, did not form part of the factual background in 1991."²¹

His Honour did note, however, that

"having said that, the prospect of technological development was very much part of the factual matrix. The parties cannot have imagined that technology would stand still, even if they could not have predicted its direction."²²

Corps' argument for establishing a breach of the agreement was that Computer's apple logos were used "on or in connection with music content" through a plain English or purposive construction. This connection, according to Corps, was "obvious."²³ Corps further argued that according to the agreement, Computer's field of use was "hardware, software and services, but not creative works with principally music content."²⁴ (emphasis in original)

Computer, however, argued a different meaning of "on or in connection with", namely, a definition that was considerably narrower than the construction proposed by Corps. It claimed that essentially "it means a use which indicated the source or origin of the rights to the music."²⁵ Therefore, on such a construction, Computer would have had to go further than it did and actually indicate that, through using its apple trade mark, it was the source or origin of the musical content.

Findings of Mann J

In interpreting the agreement, Mann J was careful to emphasise that Trade Mark Agreement must be kept "in its correct place in the chronology and the development of technology" and that His Honour could not "approach the question of construction as though the particular activity now conducted by Computer...was in the parties' minds at the time."²⁶

Justice Mann then identified two questions that would aid in resolving

the case and whether any breach had occurred:

- 1) When the agreement states that use of a specified apple mark is "on or in connection with" goods or services in a specific field of use, what does this precisely mean?; and
- 2) What is the meaning of Clause 4.3 of the agreement?²⁷

Turning to the first question, Mann J found that neither Corps nor Computer's definition was a particularly satisfying or legally sound response, as Corps' interpretation was too wide and Computer's too narrow.²⁸ His Honour thus considered a number of trade mark infringement decisions involving similar terminology. In *R v Johnstone*²⁹, for example, it was found that "the essence of a trade mark has always been that it is a badge of origin. It indicates trade source: a connection in the course of trade between the goods and the proprietor of the mark."³⁰

Justice Mann stated that similar problems of construction were encountered when analysing clause 4.3 of the agreement. This clause, discussed earlier, was included in anticipation of difficulties with boundaries, particularly that "the use of Computer's mark on or in connection with (for example) the delivery service would, or might, also be said to be a use in connection with the content that was delivered via the service."³¹ After discussing whether this provision was either prohibitive or permissive, His Honour found that the clause 4.3 was "intended to protect a fair and reasonable use of the mark when applied to the service."³²

Turning to whether any breach of the agreement had occurred, Mann J found that this would "depend on the appearance of the marks and what use of the marks conveys."³³ The applicable test for trade mark law was how the situation would appear to an "average consumer" who is "reasonably well-informed and reasonably observant and circumspect."³⁴ On evaluation of the iTunes Music Store and its presentation, His Honour noted that a regular user "would be familiar with the notion of buying recordings of

creative works from a retailer, and would be capable of not seeing any other association between the retailer and the music."³⁵ A user was unlikely to view Computer as the source of the music simply because it was being sold on the iTunes Music Store. Regarding the other matters – for example, the exclusive tracks and playlists – these did not indicate in any way that Computer was "acting as a record company."³⁶ The same was said of the iTunes and iPod commercials and it was believed that "average viewer will realise that this refers to the download service" and that "even the less astute" will be able to figure that Computer was simply the service providing content and not producing it.³⁷ The judge therefore did not find a breach of the agreement and Corps' action was dismissed.

Comment

Immediately following the decision, representatives for Corps announced its plan to appeal the findings of Justice Mann³⁸ It would be interesting to see whether the construction of the agreement would be considerably different if in the hands of another judge, but the main technological points appear to have been made already. Perhaps this case really does just seem "glamorous" because of the litigants, but the comments of Justice Mann are interesting for a number of reasons.

First, it is interesting to see how a court interpreted the iTunes software, and one point of "sensitivity" that was touched on but not greatly explored during case was whether iTunes Music Store was actually a website, with Computer rebuffing such a claim on the basis iTunes Music Store cannot be accessed through a web browser.³⁹

Second, while the case did ultimately come down to the interpretation of a contract, the comments that Justice Mann made about the technological backdrop to the agreement and the changes since it was entered into are particularly insightful. In 1991, despite careful drafting, neither party could have predicted what was to come.

Perhaps, however, the most important question that was answered by this case was not a legal, or even a

technical one: at least the public now understands why there are no official tracks by The Beatles on iTunes Music Store.⁴⁰ For the sake of music fans everywhere, here's hoping that Corps and Computer can come together outside a court room and work it out.

¹ [2006] EWHC 996 (Ch) (08 May 2006)

² Liz Chong, "Beatles take rival Apple to court over core business", *The Times* (UK), 27 March 2006, accessible at the Times Online website, <http://www.timesonline.co.uk/printFriendly/0,,1-21289-2105800-2,00.html>, last accessed 9/5/06.

³ "Beatles lose case against Apple Computer", *The Sydney Morning Herald* (NSW), 9 May 2006, accessible on *The Sydney Morning Herald* website <http://www.smh.com.au/news/breaking/beatles-lose-case-against-apple/2006/05/08/1146940472477.html?page=fullpage#contentSwap1> last accessed 9/8/06.

⁴ Above n 1, [5].

⁵ Ibid [6]

⁶ Ibid [10]

⁷ Ibid [13]

⁸ Ibid [14]

⁹ Ibid [16]

¹⁰ "Beatles lose Apple court battle", *BBC News* (UK), 8 May 2006, accessible at the BBC News website, <http://news.bbc.co.uk/1/hi/entertainment/4983796.stm>, last accessed 10/8/06.

¹¹ Above n 1, [22]

¹² Ibid.

¹³ Ibid [23]

¹⁴ Ibid [33]

¹⁵ Ibid [35]

¹⁶ Ibid [41]

¹⁷ Ibid [42]

¹⁸ Ibid [43]

¹⁹ Ibid [44]

²⁰ Ibid [52]

²¹ Ibid [54]

²² Ibid.

²³ Ibid [59]

²⁴ Ibid [61]

²⁵ Ibid [64]

²⁶ Ibid [66]

²⁷ Ibid [67]

²⁸ Ibid [73]

²⁹ [2003] 1 WLR 1736

³⁰ Ibid, per Lord Nicholls at paragraph 13, in above note 1 at [71]

³¹ Above note 1 [74]

³² Ibid [78]

³³ Ibid [85]

³⁴ *Lloyd Schuhfabrik v Klijsen* [1999] ETMR 690 in Ibid, at [85]

³⁵ Ibid [89]

³⁶ Ibid [94]

³⁷ Ibid [108]

³⁸ See above note 3.

³⁹ Above note 1, [24]

⁴⁰ Above note 3.

Is Your Employer Watching You? - Computer surveillance in the workplace

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The *Workplace Surveillance Act 2005 (NSW)* commenced on 7 October 2005 and restricts the ability of employers to monitor computer usage (among other things) by its employees. Nearly a year after the commencement of this groundbreaking legislation our experience is that many employers are still not compliant with the legislation.

Non-compliance can have significant implications. Quite apart from the criminal sanctions involved, failure to comply with the Act can prevent an employer relying on computer surveillance evidence in employee disciplinary matters and legal proceedings.

Background

In order to understand the purpose of the legislation it is necessary to understand the history surrounding surveillance in the workplace in NSW. Prior to legislative intervention by the NSW government into workplace surveillance, employers could “by and large” conduct surveillance of its employees while they were at work without fear of criminal penalties. Under common law, employers are granted proprietary interests in practically every resource used by their employees in the workplace.¹ It has been argued that in order to preserve this right, employers would be entitled to conduct surveillance over these resources to ensure their proprietary right is protected.² For example, supplied business equipment such as computers could be subject to

a search by the employer, as not only does the computer belong to the employer, but anything the employee has done as employee also belongs to the employer³ (for example, the creation of work related Word documents and programs).

Employers could also in certain circumstances utilise surveillance over their employees where the possibility of such surveillance was expressed in an employee’s contract of employment. In addition to such an express right, a general duty to obey the employer’s lawful and reasonable directions is an implied term of the contract of employment. Surveillance was seen as a way to enforce the employer’s ability to ‘command’ its employees,⁴ as there is no real difference between the various forms of human and electronic surveillance (such as video and telephone recording).

Workplace Video Surveillance Act 1998 (NSW) - the forerunner to the 2005 Act

Aside from any common law ability to conduct surveillance over employees, the *Workplace Video Surveillance Act 1998 (NSW)* was introduced to regulate how employers used video surveillance in the workplace. This type of legislation was the first of its kind in Australia and was considered a step forward in attempting to reconcile privacy concerns of employees with the needs of employers in running a business⁵ (including monitoring thefts

and stock losses via video recordings). This is important in the absence of a common law entitlement for employees to privacy.⁶

Although this Act was a significant step forward, technology continued to develop at an exponential rate, with the result that employees became increasingly concerned that private communications sent by them via email could end up being intercepted and read by their employers due to the lack of regulation over this increasingly popular mode of communication.⁷ With that in mind, the NSW government proposed that a new Act, (the *Workplace Surveillance Act 2005 (NSW)*) be implemented to ensure regulation over other forms of workplace surveillance, including computer surveillance. Not only would this new Act ensure transparency in the workplace but it would strike a fair balance between the concerns of employees regarding their privacy at work and the employer’s legitimate right to limit usage of computer networks in the workplace for personal use.⁸

Workplace Surveillance Act 2005 (NSW)

Scope of the Act

The *Workplace Surveillance Act 2005 (NSW)* (“the Act”) restricts the ability of employers to monitor the activities of its employees through computer surveillance including controlling the extent to which employers can block