O/380/20

IN THE MATTER OF THE TRADE MARKS ACT 1994

IN THE MATTER OF REGISTRATION NUMBER 2,654,977 IN THE NAME OF HUNTER LAING & COMPANY LIMITED

AND IN THE MATTER OF AN APPLICATION FOR INVALIDATION BY SHIELING SCOTCH WHISKY HOLDINGS LIMITED NO 502,830

AND IN THE MATTER OF AN APPEAL FROM THE DECISION OF MARK BRYANT (O/261/20) DATED 27 APRIL 2020.

DECISION ON SECURITY
FOR COSTS

Introduction

1. The appeal relates to the mark DOUGLAS OF DRUMLANRIG (No 2,654,977), which was filed on 5 March 2013 and completed its registration on 9 August 2013. The mark is owned by Hunter Laing & Company Limited ("Hunter Laing").

2. In 2015, an application was filed for the mark DOUGLAS OF DRUMLANRIG with a figurative element (No. 3,103,074). This application was opposed by Hunter Laing. An application to invalidate mark #977 was brought in 2017 by Andrew Crombie under sections 3(6), 5(2)(b), 5(3) and 5(4)(a). His application was unsuccessful before the registrar (O/586/17) and the registrar's decision was upheld on appeal by Geoffrey Hobbs QC, sitting as the Appointed Person, on 22 May 2019 (O/276/19).

3. Subsequently, the Shieling Scotch Whisky Holding Limited ("Shieling") applied to invalidate the same registration (#977) under sections 3(6), 5(4)(a) and 5(6). Hunter Laing applied to strike out this invalidation application on the grounds that it is an abuse of process or that the applicant is estopped from bringing the claim as Shieling and Mr Crombie have privity of interest. It was agreed between the parties that Scots law applied to these questions (and not English law). The strike out application was successful and Mr Mark Bryant, for the Registrar, gave his decision on 27 April 2020 (O/261/20). On 19 June 2020 he awarded Hunter Laing "off-scale" costs of £18,167.27 (O/330/20).

4. The appeal of the Hearing Officer's 27 April 2020 decision is currently listed for 17 August 2020. On 2 July 2020, Hunter Laing requested that Shieling provide a security for costs for its appeal. This application was accompanied by the filing history of Shieling at Companies House. In summary, this showed that the company had been the subject of a compulsory strike-off in 2009 and was restored to the register in October 2016. Its first accounts were due on 31 December 2016. No accounts were filed then or since.

5. An initial response to Hunter Laing's request was provided by Shieling on 2 July 2020 with further correspondence sent the following day. On 6 July 2020 I gave directions

providing both parties an opportunity to make submissions and for Shieling to file any evidence it wished to rely upon to show its financial circumstances.

6. As would be expected in a case about Whisky, this case includes a Scottish element and in relation to some issues Scots law was applied before the Hearing Officer. However, the power to grant a request for a security for costs comes from the Trade Marks Act 1994 (by way of the rules made under that Act). While the approach under the Civil Procedure Rules (CPR) may be useful guidance to proceedings before the registrar and the Appointed Person, those rules do not apply as such (see *1354071* O/240/20 at paragraphs 41 and 42). Likewise, decisions under the Rules of the Court of Sessions (RC) may provide helpful insights but they also do not apply to appeals before the Appointed Person.

Power to award security for costs

7. The arguments raised by Shieling were varied and numerous. The first was that there is no legal basis for the Appointed Person to award security for costs. The registrar's power to make such an order comes from the Trade Marks Rules 2008, r 68:

> **Security for costs; section 68**
> **68.**—(1) The registrar may require any person who is a party in any proceedings under the Act or these Rules to give security for costs in relation to those proceedings; and may also require security for the costs of any appeal from the registrar's decision.
> (2) In default of such security being given, the registrar, in the case of the proceedings before the registrar, or in the case of an appeal, the person appointed under section 76 may treat the party in default as having withdrawn their application, opposition, objection or intervention, as the case may be.

8. This rule, Shieling argued, prescribes no legal basis for granting a security on appeal because it does not provide for alternative or sequential orders. Thus, it was submitted, a party can only be ordered to provide a security under the rules for the proceedings before the registrar *and* any appeal and it must be applied for in one go. The precise scope of this argument is not entirely clear to me; however, my understanding of what was being submitted is that any application for a security must be made to the registrar (Hearing Officer) and it is too late to apply once the matter is before the Appointed Person.

9. I do not accept this argument as a matter of construction or, indeed, from a practical perspective. First, the power for the Appointed Person to make an order for a security comes from r 68 as applied by r 73(4), which reads:

> (4) Rules 62, 65, 67 and 68 shall apply to the person appointed and to proceedings before the person appointed as they apply to the registrar and to proceedings before the registrar.

10. I accept that r 68 enables the registrar to require a security in relation to proceedings before the registry and in respect of any appeal to the Appointed Person (or to the court). However, the Appointed Person's power to require a security comes from r 73(4) applying r 68. This means that when applied to the Appointed Person r 68 reads as follows:

> **Security for costs; section 68**
> **68**.—(1) The *person appointed under section 76* may require any person who is a party in any proceedings under the Act or these Rules to give security for costs in relation to those proceedings; and may also require security for the costs of any appeal from the *person appointed under section 76*'s decision.

> (2) In default of such security being given, the *person appointed under section 76*, in the case of the proceedings before the *person appointed under section 76*, or in the case of an appeal, the person appointed under section 76 may treat the party in default as having withdrawn their application, opposition, objection or intervention, as the case may be.

11. There are clearly drafting issues with this rule as it is "applied" to the Appointed Person (as it is not applied with "the necessary modifications"). The first is that there is no appeal from a decision of the Appointed Person (other than by way of judicial review) and so the words after the semi-colon in rule 68(1) as applied by r 73(4) are misleading and otiose. Further, r 68(2) applies to the Appointed Person twice (once in its original form and once in its applied form). While the intersection of these two rules could be improved in drafting terms, there is no uncertainty in their effect or scope. The Appointed Person can direct that a security for costs be provided.

12. Secondly, Shieling argued that an order for security can only be made in relation to a party in the position of the pursuer (claimant/applicant) or defender (defendant). As rule 68 makes clear, *any* person who is a party to proceedings can be ordered to provide a security. This conclusion was also reached by Geoffrey Hobbs QC, sitting as an Appointed Person, in *Sun Microsystems Inc's TM Application* [2001] RPC 25, paragraph 12.

13. It is also apparent that a rule allowing a request for a security for costs to be made in the registry proceedings, but not on appeal, would be impractical. An off-scale award of costs by a Hearing Officer (as in this case) might make it much less likely that a party can pay the costs of any appeal so it is only on appeal that a security becomes germane. Indeed, a party's financial circumstances might change for any number of other reasons during the proceedings thus making it necessary to seek a security.

Financial position

14. Shieling submitted that on the issue of whether a party has insufficient means to pay any costs order, the burden of proof is upon the party requesting the security (in this case, Hunter Laing). While I agree that a request for a security for costs must include material adequate to suggest a party has insufficient funds to satisfy any costs order, there is a limit to what can be expected. Hunter Laing has no access to any documents relating to Shieling's financial position other than what is on the public record (ie the record of what is lodged with the registrar of companies). Therefore, the information it provided (see paragraph 4 above) reflects what a party can be reasonably expected to produce without going to disproportionate expense (by, for example, instructing inquiry agents). By way of analogy, Lord Maxwell ordered a caution for expenses (the equivalent to a security for costs under Scots law) in *Dean Warwick v Borthwick* 1981 SLT (Note) 18 based on a company showing no annual returns for three years or other similar indication of trading and an outstanding Sheriff's decree for £581.

15. As Shieling has elected not to file any evidence to show that it could afford to pay a costs order (of any size), I must conclude that it would be unable to satisfy the current costs order made by the Hearing Officer or any further order I should make should the appeal be unsuccessful.

Discretionary factors

16. The fact a party cannot necessarily pay a costs award is not the end of the matter. The power to require a security for costs is discretionary and so should only be exercised where it is just and proportionate to give an order: see *Logoniassa's Application* (O/84/20) paragraph 28.

17. Shieling put forward six reasons why I should not order a security for costs. Some are somewhat unconventional: first, it was submitted the request conflicts with Hunter Laing's previous case; secondly, that the request has been made after the event; thirdly, that the request is not in accordance with paragraph 5.7 of the Trade Marks Manual; fourthly, that the request was unduly delayed; fifthly, Shieling has an arguable case and should be able to proceed on the merits; and sixthly, that granting the request would be indemnifying professional negligence by the back door. I will deal with each in turn.

18. Shieling suggests that Hunter Laing has previously argued that Shieling was entitled to royalties from a third party and it should not be able to go back on that position now. This argument apparently took place in "wider IPO proceedings". Shieling provided no information in *these* proceedings as to any royalties that it is due, even when specifically directed to provide evidence on its financial position. I have no information whether the royalties are disputed with the third party, the total value of them, or when they fall due. This point therefore does not help them at all.

19. There was another point taken by Shieling suggesting a change of position by Hunter Laing. It was submitted that Hunter Laing had argued in "related proceedings" against material supporting a transfer of assets away from Shieling. I find the submission confusing in the way it was expressed. The claim appears to be that in these "related" proceedings Hunter Laing was accepting that Shieling had assets (as it was trying to stop a divestment of those assets) and so cannot say it has none now. Even if I accept this entirely, I do not see how it helps Shieling. There is no evidence of the value of these assets, their liquidity or otherwise.

20. The next argument by Shieling was that the application for security has been made "after the event". Security for costs is forwarding looking, they say, and so cannot extend to the £18,167.27 costs awarded by the registrar. I reject this submission. If a party cannot pay the costs of the first instance proceedings, it clearly cannot pay any additional costs awarded on appeal. Accordingly, there is only really any security being given for appeal costs if the security covers both the first instance proceedings and those on appeal (and the courts proceed on this basis: see for example, *Great Future International v Sealand Housing* [2003] EWCA Civ 682).

21. The third argument is that any award would be contrary to the guidance in paragraph 5.7 of the Trade Marks Manual. It goes without saying that that guidance is not in itself binding on the Appointed Person. In any event, one of the cases set out in paragraph 5.7, namely "does not appear to have sufficient assets in the UK to cover any award of costs," applies in this case. As I have found, Shieling declined the invitation to provide any evidence that it had sufficient assets to satisfy an adverse costs award. Therefore, it must be treated as having insufficient assets. It was also submitted that a privy of Shieling had already paid an "off-scale" costs award in earlier proceedings. This is immaterial to whether either Shieling or its privy would have the resources to pay any costs award now.

22. It is suggested that the request for a security should be refused as it endorses a wait and see approach; that is, Hunter Laing's delay in requesting a security should be held against them. I accept that delay can be a ground for refusing or restricting a request for security for costs. For instance, a delay might deprive a party of the opportunity of collecting a security or otherwise lead the party to act to their detriment. However, there was a material change of circumstances when the Hearing Officer awarded off-scale costs to Hunter Laing on 19 June 2020. Its request for a security was made two weeks later. There was nothing put forward by Shieling suggesting this short delay caused it any prejudice.

23. I have not received any substantive arguments on the merits of the appeal. The closest that Shieling got was a suggestion that the key issue on appeal is the "abandonment of the Appellant's goodwill". At this preliminary stage, it appears that the correct issue on appeal is not whether goodwill was in fact abandoned but whether this finding was made in the Hearing Officer's decision in 2017 and so is *res judicata* in these proceedings. The Hearing Officer below was firmly of the view that he had determined it in 2017 and been upheld by the Appointed Person: see paragraph 21. I do not wish to prejudge the issue, but it appears to me that the merits of the case at best is a neutral factor in determining whether to grant the request for a security.

24. The final argument presented by Shieling appears to be that the Respondent should have sought a security for costs in October 2019, that the failure to do so was negligent, and following this "negligence" there was a duty to mitigate loss. I am at a loss to see the basis of this allegation and, even if made out, how it would help Shieling now. At best it is a variant of the delay argument discussed above.

Conclusion

25. It is apparent that Shieling cannot discharge the current costs order or meet any order on appeal. Furthermore, it has not put forward any meritorious reasons for me to decline Hunter Laing's request. I accordingly order that a security be paid.

26. Hunter Laing has asked for a security of £26,917.27. This represents the costs below (£18,167.27) and the estimated full costs of the appeal (£8,750), the latter being claimed on the grounds that any application for off-scale costs would be successful.

27. I accept that Shieling should provide a security covering the costs award made by the Hearing Officer (£18,167.27), but without hearing the submissions on the appeal I cannot assume that off-scale costs would also be appropriate in this case (or likewise that they would not be).

28. Therefore, I will set the security at £20,000 which reflects the costs below and makes some allowance for a normal costs award on appeal. The costs of this request for a security are reserved and will be determined alongside those for the substantive appeal.

29. I therefore direct Shieling to deposit £20,000 into a registry account and to do so by no later than 5 p.m. on 3 August 2020. In the event of failure to make that deposit, in accordance with rule 68(2), the appeal brought by Shieling shall, without further order, be treated as having been withdrawn.

PHILLIP JOHNSON