

The merchandising empire strikes back



Summary

The highly anticipated new Star Wars Film, 'Star Wars: The Force Awakens' was released in December 2015 and has already generated more than \$1 billion (US) at the box office. It is predicted that it will surpass James Cameron's Avatar (which earned over \$2.7 billion (US) at box office) and become the highest grossing film of all time. The Star Wars empire is one of the most lucrative entertainment franchises in the world. However, a substantial part of the empire's wealth comes from merchandising. Increasingly TV and film producers as well as game developers have to rely on merchandise deals to secure a healthy profit.

Business impact

This article highlights key issues which should be considered by the licensor (i.e. the film/TV producer or game developer) when entering into a merchandising agreement. Merchandising deals can have a significant impact on businesses which produce content/characters which can be the subject of merchandise.

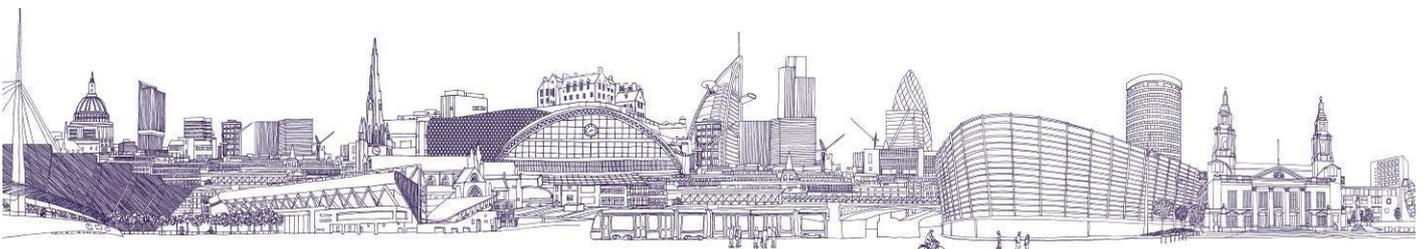
Legal detail

Listed is a checklist of 7 issues to consider when entering into a merchandise arrangement.

- i **What are the licensed products and where can they be sold?** It is important to set out what you permit a third party (i.e. the licensee) to make which bears reference to your film, programme, game etc. Clearly stipulate whether they can just make specific

types of products such as stationery, clothing, crockery etc. Also state whether they can sell the products anywhere in the world or just in a specific territory. Remember to set out whether the licensee's right is exclusive (only licensee can exploit) or non-exclusive (other licensees can exploit)

- i **What can be included on the licensed products?** You should agree what the licensee can use on their merchandising. Can they just use a specific slogan/catchphrase/image or can they make a reference to anything from your film/TV/game?
- i **Money Matters:**
 - i **Will there be a minimum guarantee/advance royalty** - This is a non-returnable payment which is paid to licensors in advance and is offset against future royalties. The payment is made to incentivise licensees to exploit the licensed products.
 - i **Royalty rate** - the level of royalty as well as how royalties will be calculated should be included.
- i **Consider applicable standards** - Merchandising can be significant in promoting brand awareness. You may therefore wish to impose certain standards (i.e. relating to quality of materials, fonts, formatting and colouring) on the licensee to ensure that your products and brand are depicted in the best light. You could also provide that the licensee cannot manufacture products without your approval and/or require a right to inspect products and/or supplied samples. Standards as to how the licensee manufactures your products (i.e. complies with applicable laws such as Modern Slavery Act 2015, Bribery Act 2010 and Health and Safety at Work Act 1974 etc).
- i **Promotional commitment** - To ensure that the products generate as much profit as possible, you may wish to require the licensee to invest an agreed sum to promoting your products. You may also



Media & Entertainment review

require a right to review and approve all promotional material.

- i **Reporting obligations** - The licensee should be required to make payments to you on agreed specified dates and should be provided with regular itemised statements. You should also ask for the right to inspect the licensee's accounts which relate to the merchandise arrangement and for any shortfalls you discover to be repaid to you.
- i **Intellectual Property** - The agreement should make clear that you own the copyright in the work licensed to the licensee. It should also state that you own the copyright to any work produced by the licensee to create the licensed products. An assignment should be added to ensure that the licensee transfers all such rights to you.

Please note that the above is by no means an exhaustive list of issues to consider. However, it is a useful checklist.

The copyright quotation exception - A year on



Summary

On 1 October 2014 new copyright legislation was implemented permitting the use of 'quotations' from copyright protected works for fair dealing purposes without the permission of the copyright owner. The legislation has been implemented to expand on the existing fair dealing provisions to give people greater freedom when using copyright protected works. As with the other fair dealing provisions, there are still conditions to satisfy, but in essence the quotation exception is widely available for almost any purpose.

Business impact

- i Greater flexibility provided to those who work closely with copyright protected works and who wish to quote the works of others. For example, a TV producer may now be permitted to show a movie clip to illustrate a movie critic's discussion of famous movie lines during a TV programme without the need to critique or review that movie extract.

- i Encourages greater creativity in the knowledge that fair and honest use of copyright work is no longer restricted to limited and outdated fair dealing provisions.
- i The apparent breadth of the new exception is bound to lead to disputes over what is and is not permitted.

Legal detail

The criteria needed for quoting copyright protected works is explained in more detail below:

1. The work has already been made available to the public (S.30 1ZA (a) Copyright, Designs & Patents Act 1988)

You can quote any copyright work that has been made 'lawfully' available to the public, whether this is through public exhibition or making copies, renting or lending work to the public. It is important to understand that just because a copyright protected work has been made available on the internet, it does not necessarily mean that it has been made lawfully available to the public. There are many websites offering illegal streams of movies that are still showing in the cinema. 'Quoting' from these films would not be permitted as you cannot fair deal copyright protected work where there has been an infringement in the first place.

Similarly, you will not be able to quote copyright work that is confidential and was never intended for public exhibition. This would turn on the facts but certainly any copyright work subject to a confidentiality agreement would not be deemed available to the public.

2. The use of the work is fair (S.30 1ZA (b) CDPA 1988)

There is no legal definition of 'fair dealing'. Throughout the implementation of the new law, the Government has maintained that the term 'fair dealing' has been adequately defined by the courts and requires no further clarification. To accompany the new fair dealing provisions, the IPO released a 'Guidance for creators and copyright owners', which provides the following guidance taken from previous case law:

- i Would a 'fair minded and honest person' have dealt with the work in such a manner (*Hyde Park Residence -v- Yelland* [2000] RPC 604)?
- i Fair dealing is determined on 'fact and impression' by assessing the importance of the work? If, how and to what extent was the work circulated to the public? Does the use

of the work commercially conflict with the copyright owner's commercial interests?
(*Beloff -v- Pressdram* [1973] RPC 765)

3. Use of the work is no more than is required by the specific purpose for which it is used (S.30 1ZA (c) CDPA 1988)

This limb acts as a handbrake to those wanting to quote copyright protected works. It is arguable as to whether this criteria is even required given that using more than what is required may not be deemed to be fair in any case. However, this does add more food for thought and in effect makes this new exception narrower than the criticism or review exception (where there is no such statutory limitation). Whilst it may be fair to quote three lines of lyrics from a song, it may still be more than what is necessary to achieve a specific purpose and as such would fail as a defence.

As with determining whether quoting is fair or unfair, what amounts to 'no more than is required' is another ambiguity that will need to be resolved by the courts.

4. Use of the work is accompanied by a sufficient acknowledgment (S.30 1ZA (d) CDPA 1988)

You will need to provide a sufficient acknowledgement of the author (who is not always the owner) and the title of the copyright work unless it would be impossible to do so.

Many defendants of fair dealing have fallen on this point and although the new law does not clarify the term 'impossible', the Government has for the first time acknowledged in statute (which has now been applied to all fair dealing provisions) that there may be scenarios where it is impossible to provide a sufficient acknowledgment in addition to when an author publishes work anonymously. For example, will the courts interpret 'impossible' widely enough to permit the quotation of a copyright protected work without acknowledgment of the source for reasons of limited space by the user (i.e. limited space in a newspaper or word limit in a twitter post)? Again, further clarification will be required.

The new quotation exception is welcome news for the creative industries, but whilst the intentions of the Government are reasonably clear, the drafting of the secondary legislation is unclear and ambiguous and because of this it is unlikely to have the immediate impact it envisaged until further clarification has been given by

the courts. In the meantime, it is a matter of who has the confidence to interpret this legislation as intended by the Government in the knowledge that the courts may either be lenient or look to make an example of early offenders.

Article written by Antoni Poyiadzis (IP, Legal and Business Affairs Counsel at Zodiak Media)

Free gaming and kids



Summary

The Advertising Standards Authority (ASA) ruled in the Mind Candy/Moshi Monsters case that game developers had to be careful not to mislead users when it presented services as free. It also ruled that advertisers should refrain from using phrases/tactics which would compel young users into subscribing to membership services within the game.

Business impact

The ruling provided that care had to be taken before using marketing phrases such as 'Join Now' to entice children to subscribe to membership services. The ASA stated that such phrases operated as commands instructing players to immediately subscribe to the membership services. The ruling illustrates how businesses must pay careful consideration to the language used to promote its products especially where children are involved.

Legal detail

The ruling related to an online game called 'Moshi Monsters' accessed via www.moshimonsters.com. As part of the gameplay, users could participate in free activities revolved around caring for virtual creatures (Moshi Monsters). Electronic currency, 'Rox', could be obtained by playing mini games which could in turn be spent on items within the game. It was possible to play the game for free and without spending real money. However, gamers had to subscribe to paid membership services in order to complete other activities.

The 'Super Moshi Mission' is an example of an in-game activity that was available to non-members. At the end of the mission, gamers were presented with the following message '**Members get more missions and unique moshlings! Epics with prizes and cool new games! Join Now!**' If a gamer tried to access a members only area, they were presented with a notice stating that the

Media & Entertainment review

area was reserved for members and a brief description of the members services/a 'Join Now' command. The messages provided a link to the membership area which could be discarded by clicking on an 'x' at the top right hand corner of the page.

The ASA noted that the memberships page which gamers were directed to included prominent actions such as 'Join' and 'Join Now' which the ASA considered were phrased as commands to purchase subscription. The ASA stated that the imperative phrasing was not necessary to explain how to buy a subscription and went further than a description of the joining link. The ASA also noted that description of the benefits included phrases such as '**The Super Moshis need YOU**' and '**Members are going to be super popular**' which placed pressure on young players. The ASA ruled that the game including the membership page presented children with direct exhortations to purchase membership subscriptions and consequently breached the CAP Codes. Mind Candy was ordered to remove the advertisement in its current form and to ensure that future ads did not state 'Join Now' or contain any other direct exhortations to purchase membership subscriptions.

Impact of the Consumer Rights Act on digital content



Summary

UK Consumer law has been overhauled by the introduction of the Consumer Rights Act 2015 (the Act) on 1 October 2015. The Act is the first piece of legislation to set out consumer rights and remedies in respect of the supply of digital content.

Business impact

Traders must be aware of consumer statutory rights and remedies, which will be implied into contracts for the supply of digital content from 1 October 2015 and ensure that their terms and conditions and processes are updated where necessary.

Legal detail

Digital content is defined by the Act as 'data which are produced and supplied in digital form'. This may include

apps, software, e-books, music, film and television. The Act applies to all content that is paid for by consumers or supplied free with other goods and services. In practice, it may be difficult to distinguish between free content and paid for content. Consumer contracts for the supply of digital content are to be treated as including the following terms:

- 1. The digital content is of satisfactory quality**
This is determined by what a reasonable person would consider satisfactory, taking into account any description, the price paid, any public statements made about the content's characteristics by the trader or manufacturer and any other relevant circumstances.
- 2. The digital content is fit for a particular purpose**
It is irrelevant whether or not the content is usually supplied for a particular purpose, provided the consumer lets the trader know of that purpose before the contract was made. If the content cannot be used for a particular purpose, the trader should let the consumer know **before** the contract is entered into.
- 3. The digital content is as described**
The content must match any description or sample given by the trader to the consumer.

If the digital content does not conform with the contract, consumers are entitled to the following remedies:

- 1. Repair or replacement**
The repair or replacement must be provided by the trader within a reasonable time and without significant inconvenience to the consumer. A trader will not be required to repair or replace the content if it is impossible or disproportionate to the other remedies available.
- 2. Price reduction**
A consumer is only entitled to a price reduction if repair or replacement is not possible or is not carried out by the trader within a reasonable time and/or without significant inconvenience to the consumer. The reduction must be 'an appropriate amount' (which could be the full amount of the price) but will usually reflect the difference between the value of the content as sold and its value had there been no fault. Any reduction must be refunded without undue delay and, in any event, within 14 days of the trader agreeing to the refund.

Traders will also be liable if the content damages the consumer's device or other digital content. The trader must either repair the damage or compensate the consumer with an appropriate payment without delay and, in any event, within 14 days of the trader agreeing the payment.

The team

John Burns
Partner
dt: +44 (0) 161 836 7923
m: +44 (0) 7909 910 816
John.Burns@gateleyplc.com

Lisa Logan
Partner
dt: +44 (0) 20 7653 1647
m: +44 (0) 7843 385 705
Lisa.Logan@gateleyplc.com

Colin Mattis
Partner
dt: +44 (0) 20 7653 1615
m: +44 (0) 7921 490 183
Colin.Mattis@gateleyplc.com

James Gopsill
Partner
dt: +44 (0) 121 234 0178
m: +44 (0) 7790 582 748
James.Gopsill@gateleyplc.com

Jill Tomasin
Partner
dt: +44 (0) 115 983 8224
m: +44 (0) 7831 130 911
Jill.Tomasin@gateleyplc.com

Nick Smith
Partner
dt: +44 (0) 20 7653 1665
m: +44 (0) 7795 630 702
Nick.Smith@gateleyplc.com

Simon Pigden
Partner
dt: +44 (0) 121 234 0153
m: +44 (0) 7721 939 794
Simon.Pigden@gateleyplc.com

Rizwana Ishaq
Senior Associate
dt: +44 (0) 161 836 7845
m: +44 (0) 7920 218 189
Rizwana.Ishaq@gateleyplc.com

Sarah Fitzgibbons
Senior Associate
dt: +44 (0) 20 7653 1673
m: +44 (0) 7702 201 935
Sarah.Fitzgibbons@gateleyplc.com

Claire Herbert
Associate
dt: +44 (0) 845 250 8092
m: +44 (0) 7976 183 552
Claire.Herbert@gateleyplc.com

Nuala Murphy
Associate
dt: +44 (0) 20 7653 1662
Nuala.Murphy@gateleyplc.com

Jenny Colver
Associate
dt: +44 (0) 116 285 9050
m: +44 (0) 7718 559 680
Jenny.Colver@gateleyplc.com

Oyinade Adebisi
Solicitor
dt: +44 (0) 20 7653 1698
Oyinade.Adebisi@gateleyplc.com