

# Trademark Toolkit: Lookalike packaging

Lookalikes have become increasingly topical in recent months, with MARQUES raising the issue before the European Parliament, Hogan Lovells publishing a report on parasitic copying and research underway at the UKIPO. WTR asked a range of trademark experts for their view on the issue and advice on how to tackle it

## Weighing up your options

Sahira Khwaja, partner, Hogan Lovells International LLP



Some of the strongest brands appear in the large fast-moving consumer goods sector, particularly food and drink and household goods, and these products often form part of the typical family's shopping basket. Some might say they are in an enviable position, yet some of their fiercest (and arguably unfair) competition comes from their biggest customers: the supermarkets. This natural tension has lent additional spice to the debate on whether the sale of lookalikes should be permitted.

So what line do brand owners typically take in dealing with this issue? The simplest answer is a very careful one. On one hand, they have to protect their crown jewels; but on the other, they naturally wish to build good relationships with their main customers in order to secure mutually advantageous terms on product listings, category

management, pricing and market positioning. Those relationships may not survive the rigours of a lawsuit, even if the law allows a case to be brought, and it will certainly bring in-house lawyers into conflict with their internal client.

So, should brand owners stand on their rights or try to adopt a less overtly confrontational approach to resolving the conflict, with the aim of securing a commercially satisfactory settlement that allows both parties to sell their products without conflict? In answering this question, in-house counsel will have to consider a number of factors:

- An assessment is required as to whether the lookalike is likely to damage current sales, in terms of both sales lost to the lookalike (whether because of the lookalike's familiarity to the consumer or because of the competitive terms on which it is often sold which pit it directly against the market leader) and a dilution of the brand's distinctiveness, which might lead to sales lost to a third-party competitor in preference to both the lookalike and the original branded product. If the product is new or highly distinctive in the marketplace, then unless settlement discussions immediately produce results, it might be better to take a public stand

against the lookalike early and send a message to the marketplace.

- This assessment should bear in mind that the protection available against lookalikes in the United Kingdom is poor and considerably worse than that available elsewhere in Europe. So if a brand owner can stop products elsewhere in the European Union, that would probably be a sensible use of resources.
- Does the lookalike damage sales or the brand? What aspects of the lookalike stray into territory that the brand owner regards as its own?
- Is the lookalike likely to encourage others to produce lookalikes? A common counterargument is, "I thought that you wouldn't mind; other people are clearly doing it."
- Who are the lookalike retailer and manufacturers? The manufacturers may be a more palatable target than the supermarkets, but this consideration may be affected by the UK actionable threats provisions.

If the result of this assessment is that the lookalike should be challenged, then the in-house counsel must consider whether this is best handled in-house, perhaps by the person with the existing relationship

with the supermarket customer, rather than externally - which may result in the complaint being taken more seriously, but which may also raise the temperature of negotiations and make the brand owner's sales and marketing staff nervous.

In reality, the lack of reported cases between brand owners and supermarkets reflects the fact that most of these disputes are handled in-house and involve a careful negotiation as to what aspects of a brand are regarded as unique and proprietary to the brand, compared with those that are regarded as the marketplace norm. For example, does use of a colour scheme indicate a brand, or does it indicate flavour or intended use or the national origin of a product (eg, red, white and green colourways for Italian food)?

Litigation, even if it is a confidential arbitration, is usually the last resort, although it is not unknown. Recent cases against supermarkets by brand owners include Diageo's litigation against Sainsbury's in respect of a Pimm's lookalike. However, such cases tend to settle fairly quickly. Unless a brand owner can be certain that the result of the case is likely to be positive and a good precedent for future action, cutting its losses and settling for an acceptable rebranding is often the most commercially acceptable approach. ■

## Influencing the policy makers

John Noble, director of the British Brands Group



Copying the packaging designs of familiar branded products has for decades been an attractive means for competitors to hitch a free ride. The frustration for brand owners has been the lack of tools available to keep copiers at bay, despite consumers being misled and brand distinctiveness destroyed.

Persuading policymakers to provide effective remedies is a long-term game. First, it must be established that such copying is not the simple cut and thrust of healthy competition, but an abuse to be discouraged. It is then necessary to demonstrate that current remedies are

ineffective – presenting something of a Catch-22, since the ineffectiveness of the existing tools discourages brand owners from using them.

Last year was a defining one for the issue. The study commissioned by the European Commission's Internal Market and Services Directorate General and undertaken by Hogan Lovells into remedies available in each of the member states provides, for the first time, definitive evidence on the extent to which remedies vary from country to country, creating a potential barrier to trade. This is evidence on which governments can base policy.

The Hogan Lovells study highlights the importance of unfair competition law as the primary course of action used by brand owners, and that unfair competition law offers something over and above trademark protection and the United Kingdom's 'passing off'. Interestingly, the EU Unfair Commercial Practices Directive – though containing specific provisions against parasitic packaging (deliberately to promote a product to suggest that

it comes from a particular manufacturer, when it does not, is a banned practice, deemed always to be unfair) – has not yet gained traction as a remedy, with any impact being described in the report as "incidental" and certainly not applied consistently across Europe (eg, in the United Kingdom, brand owners do not have the right of civil action).

To judge the extent of consistency, the study assessed four specific examples of similar packaging against remedies in six member states, finding no common view on whether the examples did or did not constitute infringement – further demonstrating the difficulties facing brand owners.

While the Hogan Lovells study provides policy makers with strong evidence of the disparate approach to remedies in Europe, there is also extensive and ever-growing evidence of the consumer impact of such packaging, from mistaken purchase to the impact on perceptions of source and quality. As a result, we are beginning to see a hardening of

resolve. The European Commission has stated that parasitic copies "take unfair advantage of the reputation of the products copied and divert sales. Companies suffering losses from parasitic copying should be in the position to react against such unfair practices". Meanwhile, the European Parliament calls such copying "an unacceptable practice that should be addressed without delay".

Later this year, the UK government will publish its study into the business and consumer harm from copying, 18 years after brand owners' concerns were first raised in Parliament. The extent to which this will influence policy remains to be seen, but if nothing else, it should add to the evidence base. Such progress may have taken time – prolonged, no doubt, by opposition from the retail lobby keen to see such copying go unchallenged – but it has been achieved by brand owners not being prepared to accept the status quo, choosing instead to work together through brand-focused trade associations at national and European level to effect necessary change. ■

## Unfair equals unfair - even in the absence of IP rights

Paul Maeyaert, partner at Altius



According to Recital 13 of the EU Trademark Harmonisation Directive (2008/95/EC), all EU member states are bound by the Paris Convention of 1883 (last revised in Stockholm in 1967). Article 10bis (2) of the Paris Convention states that "any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition".

Paragraph (3) refers in particular to acts creating confusion with the establishment, goods or commercial activities of a competitor and misleading indications as to the nature and characteristics of the goods.

Recently, the Court of Justice of the European Union (ECJ) stated that although the Lego brick could not be registered as a 3D trademark, slavish copies of the product's shape which incorporate the same technique for joining the bricks together could be examined in the light of a possible breach of the unfair competition rules (C-48/09, September 14 2010). In other words, even in the absence of registered trademark, design or copyright protection, unfair competition rules should apply. Therefore, Article 2.19.1 of the Benelux Trademark Act, which states that "a sign that is not registered as a trademark cannot

be protected", is contrary to the international and European rules.

Although Article 6 of the EU Unfair Commercial (B to C) Practices Directive (2005/29/EC) and Article 3 (a) of the EU Misleading and Comparative Advertisements Directive (2006/114/EC) offer some protection against confusing and misleading advertisements and other unfair commercial practices, it would be appropriate for the ECJ or the European legislature to reiterate the general rule contained in Article 10bis (2) of the Paris Convention, by clearly stating the circumstances in which companies – in the absence of IP rights – can act against acts of unfair competition such as the sale of lookalike products or the copying of business models. The ECJ's ruling in *L'Oréal/Bellure* could serve as a guide. Indeed,

riding on the coat tails of a competitor to benefit from the power of attraction, the reputation or the prestige of a product or service, without being required to make financial investments or creative and marketing efforts, should be considered as an act of unfair competition.

Even if a product or business model which is not protected by an IP right is not copied in a slavish manner, and even if there is no risk of confusion in the strict sense because the infringing product provides exact details of the identity of the manufacturer, the courts should intervene if it can be clearly established that the competitor has profited from the image, reputation and goodwill carefully built up by the company that originally introduced the product to the market. ■

## Drawing on experience: the Mars perspective

Evie Kyriakides, senior marketing properties manager and regional trademark counsel, Mars Incorporated



The beginning of 2012 has seen an explosion in studies on what has become a significant issue for brand owners in the grocery arena: the mimicking of key features (colours, colour combinations, labelling, product pack designs and shapes, packaging) of well-known branded consumer products.

International law firm Hogan Lovells has issued a report running to well over 600 pages (including annexes) for the European Commission, entitled "Study on Trade Secrets and Parasitic Copying (Lookalikes)". In brief, this report concludes that there are considerable variances in legal protection between EU member states, leading to different results for the same practice in different countries. The study makes recommendations for action by the commission.

In addition, MARQUES's study entitled "The Protection and Infringement of Lookalikes" is a masterful summary of the legal mechanisms for protection against lookalikes in 28

European jurisdictions, plus Turkey and the United States. The results, summarised and analysed by MARQUES on the basis of information supplied by experts in all 30 countries, show that the law differs from country to country, the level of legal protection varies and the costs of enforcement vary hugely (from \$2,000 in some countries with unfair competition laws to many tens of thousands in the United Kingdom and the United States). Adding to these studies, the Intellectual Property Institute will soon publish a major study on parasitic copying for the UK Intellectual Property Office. Lookalikes are clearly seen in official circles as causing enough harm to warrant attention.

So what insight can I offer as a lawyer for a company whose brands are sometimes targeted by lookalikes – sometimes sold by retailers and sometimes by other brand manufacturers? The key tips I would have are as follows:

- Far and away the most important factor is to work with your product and packaging designers to ensure that these are distinctive and unique. There is simply no point in trying to protect product and packaging features that have become generic or do not stand out from the mass of similar products on the shelves.
- Trademark and design registration clearly helps – and it is worth being

inventive to use the legal mechanisms to protect new colours, shapes, graphic designs and so on.

- But even without registration, any truly distinctive features should be protected under most effective systems of unfair competition law (subject to the limitations spelled out in the Hogan Lovells and MARQUES reports).
- Be vigilant – watch out for copies coming on to the market and take a swift decision on whether to pursue infringement action. It is not good business to allow confusingly similar copies to remain on the shelves, as they will confuse (and annoy) consumers and lose you business. Confused consumers will buy the lookalike thinking that it comes from the same stable as the original brand.
- As many lookalikes are produced by our customers – the major grocery retailers – the key remedy is discussion and dialogue. Most cases should be capable of resolution through sensible discussion between senior representatives (not necessarily lawyers) for the two companies which are in a dependent trading relationship. It is practically always in the commercial interests of both to find a workable and amicable solution, not just to avoid the enormous costs of

litigation, but also to preserve a good trading relationship for the future. That is a prize worth far more than the short-term costs. Most cases should be resolved this way.

- That said, brand owners must be prepared to take swift and decisive legal action in extreme cases in order to protect their valuable brand assets. They are the lifeblood of any consumer business and it is close to being an obligation, not an option, to take effective legal steps to protect your property, whether tangible or intangible.

The renewed attention being given to lookalikes should encourage governments to be more proactive in ensuring that legal remedies for brand owners are effective – which clearly they are not at present. Specifically:

- the UK government should improve enforcement (and, incidentally, save public money) by allowing rights holders to take direct enforcement action, which it is entitled to do under the EU Unfair Commercial Practices Directive; and
- the European Union should take note of the clear message in the Hogan Lovells and MARQUES reports that the disparities in law and legal remedies create obstacles to trade in the European Union and distort the internal market. ■

**Work with product and packaging designers to ensure that these are distinctive and unique. There is no point in trying to protect features that have become generic**

**What can brand owners do?**

Nunzia Varricchio, chair of MARQUES, and Till Lampel, chair of MARQUES's unfair competition team



problem of lookalikes.

Lookalikes are hard to tackle for brand owners, as they do not imitate the actual trademark of the branded product and are generally unlikely to be confused directly with that product. They bear only such a grade of similarity to the original as is necessary for consumers to recognise a resemblance. Therefore, in most cases trademark law (at least where the trademark is not well known) cannot be successfully utilised. Thus, the producer of the branded product is in many cases left to rely on unfair competition law (passing off). However, that area of law is not harmonised – at least, not with respect to parasitic copying – and the legal instruments available differ widely throughout the European Union. In member states where there are no or only fragmentary laws in place that deal with unfair copying and unlawful free riding, producers of branded products are often left with no effective legal means to tackle lookalikes.

The problems faced by victims of lookalike products are aggravated by the fact that lookalikes are often produced and marketed by large retailers with considerable market power. The producer of the original branded product is often dependent on these retailers for the distribution of its own product. If the producer does not have effective legal instruments to tackle the lookalike product, how can such

a producer compete with the retailer? The answer is that in many cases, it cannot. The shelf space allocated to the branded product will continually be reduced in favour of the lookalike until such time as it disappears altogether and the producer of the branded product is out of business.

How, then, can the producer of a branded product deal with lookalikes? The answer depends on the specific circumstances, and especially on the commercial relationship with the infringer. If the infringer is also an important customer, it is generally advisable not to let the legal department deal with the case alone. Rather, the sales department and management should be involved from the start.

Before taking the matter to court, all efforts should be made to come to a commercial solution rather than a legal one. In this regard, it may sometimes be easier to achieve an out-of-court settlement if a grace period for the sale of the lookalike is offered and rights to disclosure and damages are waived. The cutting of marketing support (eg, rebates, sales promotions) might be used to apply pressure on the infringer. If no amicable solution can be found, the pressure might be increased by obtaining an *ex parte*/interim injunction (if available in the respective jurisdiction). Such an injunction is often an effective tool to force the infringer to negotiate an amicable settlement.

If nothing else helps, the possibility of full-scale litigation has to be considered. However, litigation may seriously harm the commercial relationship with the infringer and, in the worst case, can result in the loss of an important customer. The victim of a lookalike product is thus often caught between a rock and a hard place.

It is thus time that a coherent and effective framework of legal protection against lookalikes was enacted across all member states, not only giving the victims of lookalike products the legal means to successfully tackle those products in court, but also enhancing their negotiating position with respect to copiers, thus giving them the chance to have lookalikes removed from the market.

In the High Court case of *L'Oreal v Bellure* (2006 EWCH 2355 Ch), Justice Lewison observed, with respect to the lookalike packaging of perfumes, that: "The extent of the similarity is deliberate. It 'winks at' the packaging of the premium brand. Although I accept that [the defendants] attempted to make the wink unobtrusive enough to avoid trade mark infringement they were...sailing close to the wind, and it is not surprising that on occasions they capsized."

In the interests of brand owners as well as consumers, it is to be hoped that those trying to catch a free ride on the reputation of a branded product with a cheap lookalike will capsize more often than not. ■

**“ It may be easier to achieve an out-of-court settlement if a grace period for the sale of the lookalike is offered and rights to disclosure and damages are waived ”**