Lookalike products in Europe after the ECJ's *L'Oréal* judgment

It has never been easy to determine the legal status of lookalike products within the European Union. Although the recent *L'Oréal* decision helped to clarify the ECJ's standpoint, some questions remain unanswered

By **Jukka Palm**, Berggren Oy Ab

Ever since 1994 – when leading UK supermarket Sainsbury's introduced its own-brand "Classic Cola", sparking a dispute with Coca-Cola – brand owners have been concerned by clever, modern imitation techniques that take advantage of their brands' fame without necessarily confusing customers. Even though the cola dispute was quickly settled and the imitator backed off, the lookalike phenomenon did not go away.

Lookalikes are designed to mimic the brand name or overall appearance of market-leading brands without confusing customers. Typically, the name or get-up of an own-label brand only "winks" at the earlier reputed trademark and merely brings it to mind. Lookalike products are commonly seen in the United Kingdom, especially on supermarket shelves.

Determining the legal status of lookalike products within the European Union has been a challenge due to the number of jurisdictions. Traditionally, the United Kingdom has been perceived as a particularly problematic jurisdiction from a brand owner's point of view. Unlike Germany, the United Kingdom has no recognised law of unfair competition; however, it has its own, much narrower law of passing off, which does not prevent copying if no deception has taken place.

Until the recent European Court of Justice (ECJ) judgment in *L'Oréal v Bellure*, it remained unclear whether a mere non-confusing wink could infringe an earlier registered and reputed trademark without proof that it caused confusion in the marketplace or harm to the earlier brand.

The *L'Oréal* case clarified the court's standpoint regarding trademark functions, lookalike trademarks and whether a copycat product must cause detriment to the earlier brand.

Economic considerations

According to the British Brands Group, lookalike products relate to a copying technique whereby "distinctive features of a brand's packaging are hijacked in order to trick shoppers into buying something they believe to be that brand, made by the brand manufacturer or sharing the reputation of that brand".

Brand owners also believe that such practices unfairly exploit their marketing investment in creating a positive brand image and loyalty among customers. Once a consumer chooses a lower-priced copycat product instead of a market-leading brand, an unfair loss of sales is caused to the brand owner that created the positive brand image.

According to the British Brands Group, around 20% of people have bought a lookalike product accidentally and 30% to 50% of people believe that "there is a link in 'brand quality' between similarly packaged products". Should such numbers be accurate, it seems clear that lookalike products cause significant economic losses to the brand owners that originally developed the market-leading products and corresponding brands in question.

Manufacturers of lookalike products believe that such products benefit consumers, as they increase competition in the marketplace. Entry into a fiercely competitive market is easier and less costly.

Economists have never agreed on whether brands are beneficial to the market. Some believe that brands can create artificial barriers to market entry by creating brand loyalty to products that in terms of quality are no better than their rival products bearing a lesser-known brand. However, some economists point out that brands are property – business assets that are the result of successful investments. Brands also quickly communicate beneficial information regarding the qualities of products and services. Brands reduce consumers' search costs and enable them to choose high-quality products quickly. In today's marketplace, it is also evident that image competition is increasingly important, and that price competition is just one form of competition.

Advertising function of trademarks under EU trademark law

The classic function of a trademark is to guarantee to consumers the origin of the goods or services ("badge of origin"). However, a trademark also has other functions – namely, that of guaranteeing the quality of the goods and services, as well as the functions of communication, investment and advertising. In previous cases the ECJ has confirmed that such functions enjoy protection, but has remained unclear on whether a non-confusing lookalike infringes an earlier registered and reputed trademark, and what is required to prove it.

Unlike US legislation, EU legislation on trademark dilution contains the concept of "unfair advantage" that relates to unfair free-riding on another brand's reputation, even in the absence of harm to consumers or the earlier brand. It has been claimed that such legislation would not pass the US Congress.

Under EU trademark law, the prerequisites for protection are as follows:

- The earlier mark must have a reputation in a member state.
- The use of a later sign in the same member state without due cause would take unfair advantage of, or be detrimental to, the distinctive character or reputation of the well-known mark.

In *L'Oréal* the ECJ broadened the scope of protection of a registered and reputed trademark to cover free-riding on another trader's marketing investments.

Background of *L'Oréal* and ECJ's judgment

The L'Oréal Group produces a number of luxurious prestige fragrances. In the United Kingdom, the defendants had marketed "knock-off" look and "smell-alike" perfumes. Some of the bottles and packaging used to market the perfumes were similar in appearance to those used and registered as trademarks by L'Oréal SA. The case also included an element of unfair comparative advertising.

The L'Oréal Group decided to fight against these imitations and brought an action against the defendants. In 2006 the UK High Court ruled in favour of the plaintiff and found that the defendants had taken unfair advantage of the plaintiff's registered trademarks.

After the ruling, both parties appealed. The Court of Appeal was unsure whether a cheap knock-off look and smell-alike could infringe in the absence of confusion or other harm to the earlier trademarks. The court decided to refer the following question to the ECJ for guidance on how to interpret national trademark law:

> *"Where a trader uses a sign which is similar to a registered trademark which has a reputation, and that sign is not confusingly similar to the trademark, in such a way that:*
>
> *(a) the essential function of the registered trademark of providing a guarantee of origin is not impaired or put at risk;*
>
> *(b) there is no tarnishing or blurring of the registered trademark or its reputation or any risk of either of these;*
>
> *(c) the trademark owner's sales are not impaired; and*
>
> *(d) the trademark owner is not deprived of any of the reward for promotion, maintenance or enhancement of his trademark;*
>
> *(e) but the trader gets a commercial advantage from the use of his sign by reason of its similarity to the registered mark,*
>
> *does that use amount to the taking of an 'unfair advantage' of the reputation of the registered mark within the meaning of Article 5(2) of [the EU Trademark Directive (89/104)]?"*

The court answered that concepts such as "parasitism", "free-riding" and "riding on the coat-tails" are synonymous with taking unfair advantage.

The ECJ gave the following definition of the concept of "taking unfair advantage of an earlier trademark with reputation":

> *"The advantage arising from the use by a third party of a sign similar to a mark with a reputation is an advantage taken unfairly by that third party of the distinctive character or the repute of that mark where*

that party seeks by that use to ride on the coat-tails of the mark with a reputation in order to benefit from the power of attraction, the reputation and the prestige of that mark and to exploit, without paying any financial compensation, the marketing effort expended by the proprietor of the mark in order to create and maintain the mark's image."

By applying the ECJ's reasoning, the UK court later reluctantly concluded that the defendants had taken unfair advantage of the plaintiff's reputed trademarks.

A "pointless monopoly" or necessary remedy for the modern marketplace?

In the 2008 *Intel* case the ECJ held that in order to make use of its rights under Article 5(2) of the EU Trademark Directive, in addition to having to evidence the existence of a link, a proprietor of a well-known mark must provide adequate proof of detriment. According to *L'Oréal*, there is no need to show confusion or detriment to the earlier registered and reputed mark. Unfair advantage may be taken by exploiting investments in, and the image of, the earlier reputed brand.

A number of commentators have argued that this judgment introduces an EU-wide law of unfair competition, as the protection goes beyond the classic trademark function to cover the investment, image, communication and advertising functions of reputed trademarks.

Not everyone accepts this argument. Lord Justice Jacob, a well-respected judge at the UK Court of Appeal who referred *L'Oréal* for preliminary ruling, has said that the expansion of brand owners' rights stifles competition and creates a "pointless monopoly", where producers are prevented from making truthful statements about lawful products and consumers are prevented from making choices. He also believes that the guidance from the court was not precise enough to explain whether there is a difference between permissible and impermissible free-riding.

However, the *L'Oréal* judgment is good news for brand owners – especially those in the business of consumer goods sold in supermarkets, which are concerned that clever forms of imitation damage their brands, mislead consumers and unfairly exploit the brand loyalty and marketing investments of the market leaders.

Practical considerations for brand owners

In light of the *L'Oréal* judgments, brand owners should:

- Have sufficient registered trademark protection to enforce rights provided by these judgments.
- Monitor the marketplace and react to infringing use.
- File a sufficient number of applications for the elements of their get-ups (in addition to traditional word and logo trademarks).
- Try to protect colours, colour combinations and three-dimensional shapes separately.
- Consider that it is possible to lose 20% or more of market share to lookalikes, and that this may be a significant amount of money compared to trademark protection and litigation costs.
- Be aware that it is possible to oppose not just counterfeits or confusingly similar trade dresses, but also get-ups that wink at the reputed brand and create a link between two trade dresses.
- Be aware that if they do not defend their rights, they may lose them forever as the market may be flooded with copies. Elements that were once their trademarks may become generic and unprotectable.
- Primarily file claims against taking unfair advantage instead of detriment to the reputed mark, as it is easier to prove that free-riding has taken place.

The *World Trademark Review* blog recently reported the views of Justice Arnold of the UK High Court regarding litigation costs and complexities involved in lookalike disputes. According to Arnold, brand owners should react more quickly to lookalikes or risk facing a more expensive legal action. This appears to be a wise recommendation. Sometimes a lookalike enters the marketplace slowly and quietly and the competitor tests whether the brand owner reacts. It is important to act as soon as the suspected infringement has been monitored. The chances of reaching a settlement between the parties are better in the early stages. In the worst-case scenario, the adverse party will launch a family of lookalikes onto the marketplace, creating a fight against a number of different products.

The *L'Oréal* judgment means that manufacturers of lookalike products and retailers should think twice before using a name, logo or trade dress that winks at an earlier registered and reputed brand.

Remaining issues to be clarified

The scope of protection for registered

trademarks has been harmonised across the European Union and all member states should follow the same rules and case law. However, national legal traditions and policy views differ significantly from country to country. Continental countries such as Sweden, Germany and France offer more generous protection to registered trademarks against unfair competition than the United Kingdom, where over-protective trademark monopoly is a cause for concern.

The ECJ used broad language in its *L'Oréal* judgment: the infringement criterion of "seeks to ride on the coat-tails of another's reputation" suggests that any unfair advantage that is taken of an earlier trademark without due cause could be infringing. Despite this ruling, it is likely that legal action taken against a lookalike will remain more difficult and expensive in the United Kingdom than in, for example, Germany.

It is clear that the *L'Oréal* judgment reflects the legal situation in mainland Europe. However, the ECJ has not provided precise guidance on how to apply these rules uniformly. In the context of lookalikes, it is probable that a UK court will require a greater degree of similarity between the earlier brand and the lookalike packaging than a court in France or Sweden, where intention to copy a reputed brand may be punishable.

It is uncertain whether an intention to seek unfair advantage must be proved and, if so, on what criteria. Is the issue to be decided on a balance of probabilities or must it be beyond reasonable doubt? Or must it be proved at all? Some would hold that an intention to seek unfair advantage is a requirement and it should be decided on a balance of probabilities.

It remains to be seen how the courts will interpret this element of the case. A defendant in a lookalike dispute typically says that there has been no intention to copy; the similar mark has been used because it is descriptive or because the sign suits the marketing of the product and the company's trademark usage strategy. However, such arguments alone are insufficient to prove that use has been without due cause or that no unfair copying has taken place.

According to the ECJ's *Adidas II* ruling (C-102/07), there is no rule that some signs must be kept free because competitors should be able to use them in their marketing. However, Article 6(1)(b) of the EU Trademark Directive provides that the proprietor of a trademark cannot prohibit a third party from using, in the course of trade, indications concerning the kind, quality, quantity, intended purpose, value, geographical origin, time of production of goods or rendering of services, or other characteristics of goods or services, provided that it uses them in accordance with honest practices in industrial or commercial matters.

Although the term "without due cause" remains undefined, it seems that the lack of such a cause must be presumed to exist in only highly exceptional circumstances. Furthermore, the use of an unregistrable descriptive sign infringes if it is not used in accordance with honest business practices; however, if the sign has been used for free-riding purposes, it would seem that this condition has not been fulfilled. Thus, further clarification from the ECJ would be welcome. iam

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