

Building a strategy for shape mark protection

The Lego Group has become the leading producer of construction toys worldwide thanks to its famous rectangular plastic brick. But protecting the shape of the toy is proving tricky

For those of us with happy childhood memories of building a new world out of plastic bricks each day, it will come as no surprise that the Lego brick has been crowned 'Toy of the Century', first by *Fortune* and later by the British Association of Toy Retailers, and that the Lego brand features among the top 10 most recognised brands worldwide among families with children of between six and 11 years of age. On average, each person owns 52 Lego bricks, while an estimated 400 million people – children and adults alike – will play with their bricks this year; the children dedicating 5 billion hours to trying out some of the 915 million different ways that six basic bricks – plastic rectangles featuring eight studs on the upper surface and three hollow tubes underneath – can be combined.

The Lego Group started out in the 1930s as a manufacturer of wooden toys. The company's founder, Ole Kirk Christiansen, chose the name Lego in 1934 as an abbreviation for '*leg godt*', the Danish for 'play well'. Christiansen found out subsequently that '*lego*' also means 'I put together' in Latin – a happy coincidence for the company that was to become the world's largest manufacturer of construction toys (and the sixth largest toy manufacturer overall).

The basic brick, whose current design has remained essentially unchanged since 1958, remains the Danish group's core product, but the Lego Group has developed other toys over the years – all in keeping with the group's core values of producing high-quality, educational toys. For instance, in 1984 the group partnered with the Media Laboratory at the Massachusetts Institute of Technology to create the Lego Technic range,

which blends physical and virtual worlds into an integrated play universe. This paved the way for the subsequent development of the first computer-controlled Lego robots.

Building a team and strategy

Protecting the group's brands is by no means child's play, though, and Peter Kjaer, the Lego Group's deputy general counsel in charge of intellectual property, works with two other lawyers and six paralegals in-house to register, maintain and protect the group's approximately 5,000 registrations in over 130 countries. The Lego team works closely with Danish IP consultancy firm Zacco to register and maintain the registrations, and a network of associates from other firms to enforce the marks. Kjaer explains that Zacco and other outside firms do the same type of work everywhere, but the degree of involvement varies. "There are countries where more issues need to be assessed, and that might be due to, among other things, case law or the size of the population rather than the amount of infringement, such as the United States," he says. "Also, we will be more inclined to seek advice from our advisers in markets that we consider essential."

The group's strategy is to register the Lego name and logo everywhere and some of the sub-brands or product names, which include Duplo and Bionicle, on a more limited basis – depending on the importance of each sub-brand in a particular market and the importance of the market itself for the business (the registration of sub-brands is less crucial than that of the Lego brand because most of the group's products are marketed under the Lego brand first). "The United States is one of our main markets,"

Kjaer explains, “and Europe is crucial too, so we would consider registering some brand names there, but not in Asia for instance.” Another consideration is whether the group has signed any licensing agreements in a particular country. “We have an important licensing programme,” Kjaer says. “It may happen that a licensee requests the certainty of a registered trademark so that it develops the relevant product with some guarantee of protection. So we may end up registering a trademark in a particular class or jurisdiction that we would not otherwise register in.” This approach also explains why, while Kjaer prefers to use the Community trademark system and Madrid system whenever possible, he will on some occasions go down the national route.

Shape protection

One of the most important aspect of Kjaer’s job, though, as well as the most challenging, is to protect the shape of the basic brick itself. Three-dimensional marks remain at the cutting edge of trademark law in most jurisdictions and trademark offices are often reluctant to accept such applications. The next challenge is to keep these marks on the register where they have been accepted or to enforce them. The group faces a number of high-profile challenges from competitors that now produce plastic building bricks similar to the Lego ones. These competitors seek the cancellation of the Lego registrations either directly before the relevant trademark offices or as a counterclaim in infringement proceedings initiated by the Lego Group (see “Same shape, different decisions”).

These competitors claim that the brick’s shape is functional and not distinctive, and therefore Lego should not be allowed to keep exclusive rights in it now that the company’s patents have expired. Kjaer replies that the shape is not functional but distinctive and, more importantly, has become associated with the Lego brand in the public mind. “We are concerned that consumers may be misled or confused by bricks that are very similar to our bricks but originate with other manufacturers,” Kjaer explains. “This is why we think it is right and appropriate to register and protect that shape.” Another argument is that the Lego Group invested heavily in developing the product and promoting it, so why should others free-ride on that experience and goodwill? As Poul Hartvig Nielsen, Kjaer’s predecessor, put it: “We don’t mind competition – but it has to be fair. We regard blatant imitation of our products

as unfair competition because the imitator has undertaken no independent product development and has borne none of the development costs. Moreover, consumers should not be misled into buying products which are something other than they pretend to be.”

Despite several recent setbacks, Kjaer remains convinced that protecting the shape of the basic brick is the right strategy for the group. “There have been some adverse decisions recently, but we continue to believe that our 3D registrations are valid and should be upheld.” The plan is to pursue the 3D trademark route primarily within the Community trademark system (although how that strategy can be rolled out following the decision of the Office for Harmonisation in the Internal Market to cancel the registration remains unclear). But it may well be that, in Europe at least, trademark law is the only IP option left available (in addition to unfair competition rules) to protect the shape of the Lego brick; pan-European design protection did not exist when the brick was first introduced in 1958 and as only new elements can be protected as designs, a registration is not available. “For newly invented products, the design route might be possible and we do use it to some extent,” says Kjaer, “but the eight-knob brick is not new and so we think the 3D trademark route is still the most viable route to go.”

In-built trademark awareness

One thing Kjaer does not have to worry about too much is promoting the importance of intellectual property, in particular trademarks, within the Lego Group. “We are less burdened by the problem of in-house IP awareness than other companies,” he confirms, “probably because the company name, which became our main brand name, was coined by the founder and the company is still owned by his family.” There is, Kjaer explains, a strong sense of heritage and the importance of the brand has been filtered down through the organisation. “Every employee is very much aware of the Lego brand, what it stands for and the importance of using it properly,” he says.

While there is not a lot of resistance in the organisation, the challenge remains for his team to make sure that they interact and know what is going on in the business. “We try to be proactive and work with the relevant business units,” Kjaer explains. This involves taking part in the product development process and the clearance of product names and trademarks, and liaising with marketing



Peter Kjaer
Deputy General Counsel, Lego Group

Same shape, different decisions

The Lego Group's difficulties with its three-dimensional trademarks are not new. The decision of the Nanterre Court of First Instance in France to cancel the French registration for the basic brick dates back to May 1994.

The decision stemmed from an infringement action launched by Kirkbi A/S, which is associated with the Lego Group, against the European branch of Canadian toy producer Ritvik, now operating as Mega Bloks. Kirkbi claimed that the MEGA BLOK bricks, which are compatible with the basic Lego brick and the larger DUPLO brick, infringed the Lego three-dimensional mark and constituted unfair competition. Ritvik counterclaimed that the three-dimensional shape registration was invalid because the shape was dictated by technical requirements. The court concurred with Ritvik's claim. In addition, it rejected Kirkbi's contention that the shape had acquired secondary meaning in France and also dismissed the unfair competition claim on the grounds that the MEGA BLOK bricks were clearly labelled as such.

There are various similar and more recent decisions. For instance, on 17th November 2005 the Supreme Court of Canada ruled that the shape of the Lego brick and in particular the studded upper surface (the Lego indicia) could not be protected. In that case, the Lego Group sued Ritvik for passing off, claiming unregistered trademark rights in the shape of the Lego brick. The Federal Court came to the conclusion that the Lego indicia were primarily functional and therefore could not be considered as a valid trademark. On appeal, two of three judges from the Federal Court of Appeal upheld the earlier decision. The majority came to the conclusion that there was no palpable and overriding error in the court's finding of fact that the Lego indicia were purely functional, and they agreed that the action had to fail because the functionality doctrine prevented the Lego indicia from being considered as a valid trademark under the Canadian Trademarks Act. The majority also noted that Kirkbi had already obtained protection, under the form of several patents, for the functionality of its bricks, and could not "evergreen" this monopoly by resorting to the trademark regime. The Supreme Court dismissed Kirkbi's appeal. It held that the shape of the Lego brick is functional and thus cannot be protected under the Trademarks Act.

In July 2006 the Grand Board of the

Office for Harmonisation in the Internal Market (OHIM) upheld the OHIM Cancellation Division's decision to cancel the registration of the shape of the Lego brick. The board rejected the contention that the design and proportion of the Lego brick were not functional. The board reasoned, among other things, that the fact that the brick had previously been protected by patents was evidence that the shape was functional. It interpreted the words "consists exclusively of the shape of goods which is necessary to obtain a technical result" in Article 7(1)(e)(ii) of the Community Trademark Regulation as meaning that the shape has only one purpose (ie, to achieve a 'technical result'), while the word 'necessary' means that the shape is required to achieve that technical result. It added: "Clearly the Lego brick's features were adopted to perform the above-mentioned utilitarian function of the Lego brick and not for identification purposes in the trademark sense."

Courts, even within the European Union, do not all agree on the issue of functionality, though. For instance, in July 2004 the Swiss Federal Supreme Court overturned an interim decision of the Commercial Court of Zurich that reviewed whether the shape mark was technically essential for such products. The ruling stemmed from a long-running dispute between the Lego Group and Mega Bloks, which challenged the validity of the Danish manufacturer's Swiss registrations of the shape of its blocks as three-dimensional marks. At first instance, the Commercial Court of Zurich agreed with Mega Bloks, finding that the shape of the Lego blocks was merely functional and thus could not be protected. The Federal Supreme Court overturned this decision and remanded the case in July 2003. It held that the shape of a product (that, in the case at hand, had acquired distinctiveness) is not "technically necessary", and therefore can be protected as a three-dimensional trademark, if there are reasonably feasible alternatives. An alternative is not reasonably feasible if it is: less practical; less solid; or more expensive to produce. As part of its order, the Supreme Court requested that the Commercial Court review the question of whether "reasonable alternatives" to the shape of Lego's blocks existed.

On remand, the Commercial Court gave an interim decision that limited the examination of reasonable alternatives to blocks that were functionally compatible with the Lego blocks. On further appeal, the

Federal Supreme Court overturned the interim decision, holding that the lower court had incorrectly limited its analysis. It stated that alternative forms were reasonably feasible, even if they were not functionally compatible with the Lego blocks. That latter decision appears to pave the way for the Lego three-dimensional trademarks to be deemed enforceable in Switzerland, and the creation of a general standard for assessing the validity of three-dimensional marks in Switzerland.

Where protection under trademark law is not available, the Lego Group can often rely on unfair competition or other provisions to protect its brick.

In December 2004 the Swedish Market Court held that while the Lego Group's competitors should be free to use the same interlocking system for their toy bricks as that featured on Lego bricks, they must ensure that the bricks are distinguishable from Lego bricks in terms of design, colour or other features. That decision was issued under unfair competition provisions rather than the Swedish Trademark Law, but nonetheless amounts to extending protection to the Lego bricks.

A similar decision was issued by the Breda Court of First Instance in the Netherlands in July 2005. Mega Bloks had applied for a declaration that its building bricks do not infringe the Lego bricks. The Lego Group brought a counterclaim against the application. It admitted that it could not rely on any IP rights in respect of the shapes of its Lego and Duplo bricks. Therefore, it based its counterclaim on slavish imitation of the shapes under common law. It stated that the similarities between the two shapes would cause confusion to the public. The court agreed with the Lego Group that the similarities between the bricks would lead to consumer confusion. In particular, the court stressed the fact that the two sets of bricks are interchangeable, which heightened the likelihood of confusion when the products are removed from their packaging. Mega Bloks, the court stated, could have used a different size of brick and connection system. Accordingly, the court issued an order preventing Mega Bloks from marketing its bricks in the Netherlands. It is interesting to note that the court's reasoning in this case seems to be contrary to the findings of the European Court of Justice in *Koninklijke Philips Electronics NV v Remington Consumer Products Ltd*, the European reference case with regards to functional shapes.

to make sure they know how to use the company's trademarks. "We put a lot of emphasis on training – it helps to minimise the gap between the legal department as the administrator of trademarks and the business units as users," he says. Thus, the trademark department has distributed IP usage manuals and guidelines within the company to explain to staff how to display logos, how to use them in advertising and how to use the brand names.

The high level of IP awareness is probably also a reflection of the fact that the trademark portfolio and the Lego brand in particular are definitely considered the group's most valuable asset.

Not surprisingly in light of the size of the portfolio and its geographical scope, the main part of the budget of the Lego legal department (which, besides the IP team, consists of seven lawyers, seven paralegals and two people dealing with risk management and insurance) goes towards intellectual property; this represents "a significant amount," says Kjaer.

To forecast the budget, Kjaer works with the Lego product development team to learn of any products that are to come out in the following year; then he works with the company's main agent, Zacco, to try and allocate a budget for these new applications and review marks due for renewals. The unknown factor is the cost of enforcement. "We have some statistical basis to allocate amounts for that, but of course we have to consider cases as they come; obviously we would not decide not take a case because we have spent the budget."

Enforcement and policing

The group's enforcement strategy is simple: "We go after any infringement, on a global basis, to maintain our rights to the Lego brand." As discussed above, the group's main problems are with legitimate businesses that produce toys – usually building bricks – that are similar or identical to the Lego toys. But, as with many other brand owners, another significant issue is counterfeiting. "We have come across the unauthorised use of the Lego logo on products that are not the core Lego products or not even part of our range, such as shampoo," says Kjaer.

The biggest markets in terms of sales may be those in which the Lego Group encounters the most infringement cases, but they are not where the counterfeits originate from. "Like most brand owners, we find that most counterfeit products come from Asia, in particular China," Kjaer notes.

Another thing that Kjaer's team has to police is the generic use of the Lego name to designate any construction toy. "The generic use of our brand is something we are very much aware of and try to correct systematically – in particular with regard to dictionaries, encyclopaedias, newspapers and magazines." The generic use of the Lego name is also very common on the internet, but in that regard, Kjaer believes in educating the public, in particular the large community of Lego users who have done so much to make the brand what it is today. "We have a lot of loyal and dedicated fans and customers who are keen to discuss our products online and display their creations made of Lego products," Kjaer explains. While this is something the company is keen to encourage, it is important to set out some guidelines for the use of the Lego name. "What we do is emphasise the education aspect in terms of using our marks correctly, but we will go after online infringers as we do with offline ones," Kjaer says. He also mentions that guidelines for proper trademark usage are set out in the "Fair Play" section on www.Lego.com.

The main type of online infringement Kjaer comes across is the use of the Lego brand as part of shore names on auction websites or as part of domain names. Kjaer's team has registered the Lego brand and its main sub-brands in all generic top-level domains and all country-code top-level domains. "But like most brand owners, we have been slightly overwhelmed by the sheer numbers of possible domains," Kjaer confesses. "Besides what we register for our own use or for strategic reasons, we evaluate each case on its own merits."

Responsibility

Kjaer sees his priority for the future as the preservation of the uniqueness and relevance of the brand on and offline – something which he describes as "a huge responsibility". Protecting the shape of the basic brick remains one of the cornerstones of his strategy and while adverse decisions have attracted a lot of attention, the Lego Group has also won a lot of cases. "This encourages us to persevere in our approach; we are convinced that, ultimately, this perspective will prevail everywhere."

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