

Session 10A

Emily C. & John E. Hansen Intellectual Property Institute

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SESSION 10: TRADEMARK LAW

10A. Iconic Brands: Creating Trademark Law for the Few

Moderator:

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Speakers:

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How Luxurious?

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***Are There Specific Exceptions to the Principle of Trademark Exhaustion for
Luxury Goods Under EU Law?***

Peter Ruess

Arnold Ruess, Düsseldorf

***CJEU Rules on Red Shoe – New Guidelines for Shape and
Color Marks or More Uncertainty?***

Panelists:

Emily M. Borich

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MS. BERGER: Welcome to this wonderful trademark panel, “Iconic Brands: Creating Trademark Law for the Few.”

My name is Magdalena Berger. I’m insanely excited to be here. I’m insanely excited to be moderating a panel that doesn’t have the word “update” in it. I’m almost sure it’s the first for me, and this is my seventh or eighth conference, so this is going to be amazing really.

I have a wonderful panel — Anderson Duff, Peter Ruess, Tobias Timmann, Emily Borich, and Daan Erikson — all are enthusiastic trademark lawyers, and we are all here to discuss iconic brands.

I am going to add one preface. “Iconic” does not necessarily mean luxury. Just throwing it out there so you get the right frame of mind.

Peter, why don’t you start, now that we are all here and settled and happy?

PROF. DR. RUESS: Hello, everybody. Good to be back. I want to talk to you about the *Louboutin*¹ decision, which I think — unfairly so — has been trivialized in one or more legal journals. But we will talk more about that later.

The factual setting is relatively well-known to all of you. Let me just briefly recap this. In the 1990s Christian Louboutin, a very famous (usually mispronounced) shoe designer, had an issue because he felt that his shoes didn’t adequately portray a three-dimensional image — as if he had known that we in the trademark community would discuss the three-dimension feature later — so he ended up stealing a bottle of nail polish from his assistant and colored the sole red. This was the start of a very successful fashion item which, in addition to national trademarks, ended up with an EU Trade Mark registration in 2010 for “high-heeled shoes with the exception of orthopedic shoes.” As a side note, if you have ever seen these shoes, he has kept true to the registration; they are certainly not orthopedic.=

Our story starts when a case was litigated in a Dutch court against a company called Van Haren, which also produced shoes with red soles. That court considered the issue of whether the red sole trademark was inherently registerable or not because it consisted exclusively of a shape or a characteristic that “added substantial value.” That’s 7(1)(e) of the Union Mark Regulation (UMR)².

If you look at this trademark, it covers the color red applied to the sole of a shoe. The outline of the shoe is not part of the trademark, which for all of us who read and work on trademark applications is visible because we have a dotted line, so the shoe doesn’t take part in the sign. Up to then there was some discussion whether this is a shape mark or a color mark. It is actually none of the above. It is a position mark.

¹ Case C-163/16, *Louboutin v. Van Haren Schoenen BV* (June 12, 2018), <http://curia.europa.eu>.

² Regulation (EU) 2017/1001 of the European Parliament and of the Council of 14 June 2017 on the European Union trade mark.

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The point where you usually close the book on this case is that the CJEU³ said that the color is not considered as “a sign consisting of a shape,” even less “exclusively of a shape,” and it did away with the idea that was raised in legal literature that shape could be two-dimensional. Shape, per se, cannot be two-dimensional; a two-dimensional shape is a picture.

However, why I think this case deserves a second look is because of the underlying considerations that particularly were raised by the Advocate General. As you will know, the Court very often tends to follow the Advocate General. Not so in this case. The Advocate General said a position mark, and this mark here as well, “must be measured according to the rules for three-dimensional marks if they are inseparably linked to the appearance of the goods.” That seems logical at first glance, but what does that mean?

If you look at this LEVI’S little red sign here, is it adding substantial value to the goods covered by the mark? Yes. Does it matter where it is? Well, yes. If you sew it to the knee of the jeans, it will probably generate another effect.

But if we take that seriously — and this leads me to cons of what the Advocate General says — then I can do away with position marks because every position mark, wherever it is, will add substantial characteristic to the product. This very narrow understanding would lead to a situation where I do not have any position marks.

A further controlling thought is, let’s say I register a color, an abstract color trademark. I can get that if I prove that it is distinctive, but I cannot get a mark that has failed the functionality test because 7(3) UMR⁴ doesn’t reference 7(1)(e).

That means if I fail the functionality test, distinctiveness will not help, and that would lead to the result that I can get the color, but I can’t get the color at a certain position, which I consider not overly logical.

The real takeaway from the *Louboutin* case, in my personal opinion, is that there is quite a lot of ambiguity and misunderstanding to the point of what actually is a shape mark, what actually is a color mark, and what actually is a position mark, and it shows that there are still a lot of issues dealing with a position mark and how should we approach a position mark.

Certainly, the position mark cannot be subjected to the stringent functionality test. Well, why not? Can I have a functionality test at all? Yes, but it would mean that I have a function.

Probably those of you who own these shoes can attest it doesn’t have the slightest function. On the contrary — I see Susan laughing, who probably owns a sizable collection of them; I should ask you for a specimen — if you walk on it, it will just wear off. So it is only an aesthetical design and, therefore, not open to the functionality test.

That concludes my remarks. I will tender the remaining one minute — ha-ha — to the pot. Thank you very much.

MS. BERGER: So, Peter, you know the reason you’re here today and you get to talk about *Louboutin*? You don’t get to talk about it because it’s such an interesting case;

³ Court of Justice of the European Union.

⁴ Art. 7 (3): “Paragraph 1(b), (c) and (d) shall not apply if the trade mark has become distinctive in relation to the goods or services for which registration is requested as a consequence of the use which has been made of it.”

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you get to talk about it because there are people — I'm not going to name any names — who think that this was all a lot of nothing for one brand, mostly maybe even PR. But from a legal standpoint those cases didn't add any value to trademark law, did they?

PROF. DR. RUESS: First observation: Was this the groundbreaking case that we all needed? Probably not. Can we order the groundbreaking cases that we all need? Does the legal community do us the favor to bring cases that just enlighten us and help us to develop new principles? Probably not.

I think the case is indicative for what I tried to mention in my last sentence, that we need a clearer understanding dogmatically of what is which kind of trademark. But, as I have neither filed nor argued nor decided the case, I could live with the assessment that it's not the "case of the century," if you want.

MS. BERGER: As is the good practice at Fordham, I will always prioritize questions from the audience.

QUESTION [Christian Liedtke, acuminis PC, Costa Mesa]: Peter, coming from Europe myself, I was wondering if you could clarify the functionality understanding here.

As a U.S. practitioner, the first thing that comes to my mind is that U.S. trademark law, specifically U.S. trade dress law, as was quite clear in the *Converse* case, recognizes two different types of functionality: we have utilitarian functionality, where you actually have something that has a purpose; and we have something called aesthetic functionality, where the functionality flows from the value and, therefore, we would have a problem awarding protection. How does functionality work in this context in Europe?

PROF. DR. RUESS: Well, the law says that you cannot get a trademark. Let's take an example. If you have a liquid in a bottle, then this bottle will hold the liquid, and that's functional. The problem with the 7(1)(e) test is, what does it mean by "it adds substantial value?"

That is a very good question. If we were to say that adding any aesthetic value would be enough to fulfill the test, which people do, then goodbye position marks because every position mark adds some sort of value at this very position.

QUESTION [Gordon Humphreys, EUIPO Boards of Appeal, Alicante]: Thank you for a very entertaining rendition of that judgment. I never realized the humor in that judgment.

PROF. DR. RUESS: The orthopedic shoes you mean?

QUESTIONER [Mr. Humphreys]: One thing that strikes me is that, of course, the law has actually changed since that judgment was handed down because of Article 7(1)(e) having undergone a revamp when the legal reform occurred to the European Union Trademark Regulation. Now the Regulation talks about "any other characteristic," not just the shape but "any other characteristic that adds substantial value."

PROF. DR. RUESS: Yes, it says "shape or any other characteristic."

QUESTIONER [Mr. Humphreys]: Yes, correct. So my question is: do you think that this "any other characteristic" now is the death knell, if I could put it that way, for the coexistence or double registration of designs and trademarks?

PROF. DR. RUESS: I don't think it is the nail in the coffin. For this case I personally — I'm now arguing policy a bit — don't think it would, and I don't think it should change things. If you say that it "adds substantial value" and we define this as a characteristic that adds substantial value, then again I come back to my previous

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argument. The Adidas stripes, the Levi Strauss little red tag — I cannot imagine a single position mark which would not fulfill that test.

Logically, the thing that strikes me if you attack this line of thought — I'm happy for new ideas — is that because the legislature decided that I cannot overcome this hurdle with distinctiveness and because the legislature allows me to register an abstract color, it cannot be right that I cannot get less, which is a color at a certain position, but I can get the color. A reading of the statute which would lead to that result in my view would be flawed.

MS. BERGER: Actually, we are out of time for discussion right now, but please hold your question because we have time for a general discussion after. I just want to make sure we have enough time for all the talks.

Anderson, let's move to the United States.

MR. DUFF: I first want to tell a brief story about the great Hugh Hansen. I don't know if anyone else was caught in the cloudburst earlier today, but one day when I was a Fellow at the Institute and a student here, Hugh called me to his office late at night, and we were trying to decide which of two umbrellas we should purchase for the conference. We had a low-quality but much cheaper umbrella and a very expensive, high-quality umbrella.

I went on a pretty long rant about how, "Hugh, this is an IP conference; this is your brand; it's worth investing in." I just went on and on.

At the end, Hugh looked at me across his desk the way he does sometimes, and he said, "That might be some bullshit, but it's some good bullshit." From then on, they've had the best umbrellas here. [Laughter]

MS. BERGER: Let's make use of the time and use it for questions. Let's discuss your question.

QUESTION [Anne Marie Vershuur, Nautadutilh, Amsterdam]: I think you mentioned before that the way the laws work, marks like the ADIDAS stripes, etc., couldn't exist.

I think that the solution is that the law should be changed as for signs that give an essential value to the goods. Acquired significance should be allowed. Actually, that is the position that the International Association for the Protection of Intellectual Property (AIPPI) has taken in a recent resolution.

So my recommendation to the European Union would be to change the law. I know that is not as easy, but I think the law should be changed. I think actually the Max Planck study also mentioned this. So that would be my comment.

PROF. DR. RUESS: I would second that. I'm always for trademark law— I'm ducking here to see that Marshall isn't throwing anything at me — but I wasn't involved in the *Louboutin* case and, unfortunately, I can't change the law either. [Laughter]

MS. BERGER: Any other questions or comments while we are battling technical difficulties?

[No response]

Then I have a question. I still have a beef with this case, and mostly it started with the case in the United States. Sorry, Peter, but I'm going to keep hammering that point.

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I'm wondering whether that precedent is helpful to anyone but the biggest and largest brand owners. It really comes down to whether trademark law should be for all trademark owners, but really there are two separate sets of laws.

While it's highly interesting and intellectually engaging to talk about cases like *Louboutin*, do you need it in your daily practice? Nine out of ten clients won't consider filing suit in the United States in several instances and go all the way to the CJEU to then get a court decision that's unclear at best.

PROF. DR. RUESS: That is a fair point. You can approach this from two angles. It is a common notion at Fordham — and I don't even say it's wrong to say — that trademark law is for the big companies and they get special treatment. Well, yes, they might pave the way for certain decisions.

I have, just very briefly, two comments. First of all, they usually are the marks that have the fame, the distinction, and of course the commercial resources, that makes it worthwhile to litigate. It might not be the case in *Louboutin*, but I think we can find various decisions where big trademarks have taken on a theoretical issue that led to final court decisions that in the end benefit even small trademark owners.

MS. BERGER: Fair enough. Fair point.

It seems like poor Anderson will forsake technology and go old school.

MR. DUFF: I only had a few images anyway, but since we are talking about design marks it would have been nice to have them. I'll just do my best to describe them. But that's an excellent segue into my presentation.

I've been asked to talk about *Converse*⁵. I think we've probably all heard about "*Converse v. The World*," but, as I was thinking about the ITC litigation⁶ and now the Federal Circuit's decision vacating and remanding that decision in the context of this panel, it occurred to me, exactly what Peter just said, that trademarks do not just protect luxury and iconic brands; they allow small brands to become iconic.

I will share an experience at the end of my presentation that really led me to believe that what you need for a strong trademark is community. Maybe that's cheesy, but we'll get to that, and I'll see if I can lead you to the same place.

In talking about *Converse* I remember when Susan Scafidi made a presentation about the *Louboutin*⁷ shoe case and brought in some shoes for everybody to look at. I remember holding those shoes and thinking, *Wow, these are really amazing!* Thankfully for you, my fiancée decided it would not be funny if I brought in a bag of shoes for my talk about the *Converse* case, so you all lucked out there.

If you remember the ITC litigation, Converse sued just about everybody in the world who makes shoes looking for an exclusion order relating to several of its trademarks, including the design mark of the band around the top and the toecap of its shoes.

⁵ *Converse, Inc. v. International Trade Commission Sketchers U.S.A., Inc.*, 909 F.3d 1110 (Fed. Cir. 2018).

⁶ In the Matter of Certain Footwear Products, USITC Inv. No. 337-TA-936 (U.S. Intern. Trade Com'n), 2016 WL 3475715 (June 23, 2016).

⁷ *Christian Louboutin S.A. v. Yves Saint Laurent America Holdings, Inc.*, 696 F.3d 206 (2d Cir. 2012).

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I will read to you the description from the registration since I do not have an image of it: “The mark consists of the design of two stripes on the midsole of the shoe, the design of the toecap, the design of the multilayered toe bumper featuring diamonds and line patterns, and the relative position of these elements to each other.” If you can’t quite picture that, the two lines are not as apparent as you might think, at least in my opinion.

The ITC decided that the registration was invalid and that Converse could not establish common law rights, and so they decided that as to that mark Converse was also asserting common law rights. They could not show secondary meaning, and so they could not get an exclusion order as to shoes with that design element.

I don’t want to talk too much about the details of *Converse*, the Federal Circuit’s recent decision to vacate and remand that decision, because I believe Marshall Leaffer is going to cover that in greater detail.

MS. BERGER: Marshall says no.

MR. DUFF: Well, I’ve already decided not to, so, Marshall, it’s all yours. You are also doing the trademark update. I am still going to discuss it, but I did want to get on to a couple of other cases as well.

In deciding whether or not Converse could show secondary meaning for its design, the ITC considered evidence going back to 1932, when the design for CHUCK TAYLOR shoes was first released to the public.

I would like to highlight one thing here. Brands have an arc. CHUCK TAYLORS don’t mean the same thing to me that they mean to my father, and they don’t mean the same thing to my youngest sister even than they mean to me.

The ITC litigation occurred after Nike had acquired Converse. I’m speculating here, but I think it’s probably likely that was a choice that Nike was making to maximize the value of the brand. Perhaps that’s a good way to say it.

I think for this discussion the most important aspect of the Federal Circuit’s recent decision in October of 2018 is the district court had looked at decisions going back to 1932 to determine whether or not secondary meaning had been proven, and although they should be allowed to consider all that material, by far the most relevant material is the material from the last five years. I think that makes sense because a trademark is about what consumers are thinking of the mark at that moment. A trademark is a source identifier. It’s not a nostalgia factor.

At the end of last year or earlier this year I found out that the DeLorean Motor Company is still operating when I had a client who manufactured skin cream and named one of its lines DELOREAN skin cream. When I was first talking to my client, they told me that they had no idea that the DELOREAN used to be a car. They thought DELOREAN was the time machine from *Back to the Future*. I immediately thought they were lying to me. I asked their ages and started grilling them, and then I started doing the math. These co-founders, God bless them, were in their early twenties. It checks out. So DELOREAN means something completely different to them than it does to me even, and I’m not that old.

That case illustrates another interesting thing to me: it’s the nostalgia phenomenon, where old brands are acquired and then resurrected. The DeLorean Motor Company that operates today has nothing to do with John DeLorean, who was entrapped

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by the federal government, in my opinion. If you don't know that story — I didn't until this case — but it involves cocaine, tens of thousands of dollars; it's an amazing story.

The DeLorean Motor Company as it operates today didn't get a license from the DeLorean family. All they got was a settlement that said the DeLorean family would no longer sue them. That does not stop the DeLorean Motor Company from claiming that they can claim priority going all the way back to the DeLorean Motor Company.

Thank you.

MS. BERGER: Thank you, Anderson.

You brought up an interesting point. You said that Nike acquired Converse in 2003, which was about ten years before Converse started the lawsuit?

MR. DUFF: It was a couple of years before, and that's pure speculation on my part, but there might be people here who know.

MS. BERGER: But I'm going to use it. I'm going to use this and go for it, and I'm going to ask Emily: it seems like that especially high-end brands or luxury brands right now have that kind of strategic thinking. I think that luxury brands just have a different way of going about business, and they might have other business strategies aside from just pure trademark litigation to get rid of counterfeit goods or to get rid of secondary market goods.

MS. BORICH: Right. I know we are going to talk about exhaustion in a few minutes, but I think it's interesting how many acquisitions of resellers took place this past year. For example, Richemont acquired Watchfinder, which is a resale watch company; and Farfetch, which is a luxury retailer, acquired Stadium Goods, a sneaker consignment site. These are just a couple of examples. I think Foot Locker just invested in a sneaker resale company as well. It is interesting because there is kind of a love/hate relationship with resellers, but it seems like maybe the luxury companies are trying to exert some sort of control past the first sale of these goods.

There's the other side of it, too. For example, Chanel is suing The RealReal right now because they are selling Chanel bags that — while they might be authentic, the people at The RealReal aren't trained by Chanel to actually say that they are authentic. It is an interesting tug of war.

But these are the brands that have the money and the access to be able to acquire other companies and have a strategic plan on the business side that affects things on the legal side.

MS. BERGER: It's similar to the *Converse* case in the sense that Converse went to the ITC, which I think — correct me if I'm wrong — is a highly unusual move, right?

MR. DUFF: At the time it certainly was. The firm I was working at in Boston when ITC cases were coming into vogue did a lot of patent litigation, and our litigation team started resorting to ITC cases more frequently because they had an accelerated schedule — you could be in front of an administrative law judge very quickly — and the rulings were very effective.

MS. BERGER: We have an audience question. Christian?

QUESTION [Christian Liedtke, acuminis PC, Costa Mesa]: Lena, if you'll permit me, it's a little more a comment than a question.

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You asked whether it is a highly unusual move to litigate this thing in the ITC. I should preface this by saying that my firm represented one of the thirty or so defendants or respondents in that ITC investigation, so I'm intimately familiar with it.

It wasn't so unusual because (1) Converse didn't care about money; they just wanted the market to be clear; (2) they knew that if they had tried this case to a jury they would have been thrown out of court in no time; and (3) really interestingly, there is actually a footwear trademark precedent at the ITC, the *Crocs* case, which was decided just a couple of years before that. I'll leave it at that. Everything else I'll reserve for the reception.

MS. BERGER: Thank you.

Other questions or comments from the panel or the audience? Professor Scafidi.

QUESTION [Prof. Susan Scafidi, Fordham University School of Law, Fashion Law Institute at Fordham]: Thank you for the shout-out, both of you.

Very quickly, I want to come back to *Converse*, the case that you are not going to talk about in detail. The important five-year period referred to by the court in its exclusivity of use factor analysis, of course, is not five years from the moving target of when the Court gets the case or when it is decided or when it is appealed; it's five years prior to some relevant date. I'm wondering what this means in practice terms since we have so many distinguished practitioners on the panel and in the room. Are we going to have to stop hiring survey experts and hire historians? How do you think this is going to play out in practice?

MR. DUFF: That's an excellent question. To be clear, the Federal Circuit said it is five years from the "relevant date." It could be from the registration, right, but it could also be from the date of infringement. That's exactly what I was thinking. We would need DeLorean to go back and hire a survey expert. I'm not sure how that's going to play out. It's going to be very difficult.

I think surveys are always very problematic, but finding out what is in consumers' heads is something people have been trying to do for a long time, but I think we still aren't very good at it.

I don't have a great answer for you, but it's a great question.

MR. ERIKSON: Anderson, I thought you were going to say that you'd have to take a DeLorean to go do a survey.

MR. DUFF: Did I not say that?

MR. ERIKSON: To time travel to do the survey.

MR. DUFF: Oh, I'm in a loop. Again.

MR. ERIKSON: It's a bad joke. It's fine.

MS. BERGER: We have one more question. I don't want to ignore you.

QUESTION [Marshall Leaffer, Maurer School of Law, Indiana University]: It makes sense to use a "five year from the relevant date" rule of thumb for determining secondary meaning. After all, secondary meaning analysis seeks to determine what is "in the minds of consumers." That's why the Federal Circuit directed the ITC to rely on prior uses occurring within five years before the relevant date. Uses older than five years may be of importance if there is evidence that those uses were likely to have an effect on consumers' perceptions as of the relevant date.

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MR. DUFF: Well, it's not irrelevant to Converse, and maybe to old-timers it is not irrelevant; but are old-timers the current relevant consumer?

QUESTIONER [Prof. Leaffer]: From the standpoint of infringement.

MR. DUFF: Right, and that's what I'm saying. It may be that people fondly remember 1932 when CONVERSE and KEDS were competing, but those people are probably not the relevant consumers at this point in time. So I think that moving away from that historical focus is a good idea.

QUESTIONER [Prof. Leaffer]: It seems strange to me that it took this long to have a precedential decision on something that seems to me so obvious, but then again, that's progress. [Laughter]

MS. BERGER: On that note, we are going to move on to the situation in Europe.

MR. TIMMANN: Thank you, Lena.

We already touched upon the question of whether or not there are two separate sets of laws for luxury good trademarks on the one hand and normal trademarks on the other hand, and I will try to shed some light on the question whether or not there are specific exceptions to the principle of trademark exhaustion for luxury goods under EU law.

The applicable law is Article 15 of the Trademark Directive⁸, or Article 15 of the EU Trademark Regulation⁹, which are identical. Those include the general rule that a proprietor of a trademark shall not be entitled to prohibit the use in relation to goods which have been put on the market in the European Union by the proprietor or with its consent.

In the second paragraph there is an exception to this rule: Trademark exhaustion “shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialization of the goods.” These legitimate reasons may be the gateway for luxury brand owners in respect to this exhaustion point.

In the CJEU case law there are indeed examples — they are quite old, ten years and older — where the Court has held that “damage done to the reputation of a trademark may in principle be a legitimate reason within the meaning of Article 15, Paragraph 2, allowing the proprietor of the mark to oppose further commercialization of luxury goods although they have been put on the market in the European Union by him or with his consent.”

What does this mean? I brought two recent cases where courts had to deal with this question.

The first case is from the United Kingdom, *Nomination v. Brealey*¹⁰. Nomination manufactures and sells “composable” bracelets, which consist of individual links, and those may be detached and include so-called “base links,” which bear the NOMINATION device mark, and you can see them on the right-hand side here.

⁸ Directive (EU) 2015/2436 of the European Parliament and of the Council of 16 December 2015 to approximate the laws of the Member States relating to trade marks, 2015 O.J. (L 336) 1.

⁹ Regulation (EU) 2017/1001 of the European Parliament and of the Council of 14 June 2017 on the European Union trade mark, 2017 O.J. (L 154) 1.

¹⁰ *Nomination Di Antonio E Paolo Gensini SNC v. Brealey* [2019] EWHC 599 (IPEC).

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The defendants bought original base bracelets from Nomination, disassembled the bracelets, put them into individual links, repackaged them, and then sold the individual links together with the links they had manufactured. The NOMINATION base link at the end was sold in a small plastic bag bearing the label, “manufactured by Nomination Italy and repackaged by defendants.”

The Court held that there was no exhaustion, and the reasons for this were indeed that the trademark rights could be exhausted because the products were brought on the market by the proprietor of the trademark unless there were legitimate reasons for the trademark proprietor to oppose the further commercialization, so Article 15, Paragraph 2 of the Trademark Directive.

The test the Court applied here was whether or not there was damage to the reputation of Nomination’s trademarks, and the Court said yes; the elegant packaging of Nomination’s bracelets would convey an image of luxury to purchasers, and this increases the reputation of the trademarks, and selling Nomination’s products in a small plastic bag is likely to damage that reputation. For this reason, trademark exhaustion was denied. This might be quite familiar, the repackaging case, which might not be that specific to luxury goods.

I also brought a German case which goes one step further. It’s a case which was decided by the Higher Regional Court of Düsseldorf last year, *Kanebo v. Real*¹¹.

Kanebo manufactures and sells Japanese luxury cosmetics. Real is a German supermarket chain that sold gray-market goods of Kanebo’s luxury cosmetics through its online shop. It is totally undisputed between the parties that these were goods which were put onto the market by the trademark proprietor, and the products had not been changed, altered, or repackaged. Real simply sold original products. This was undisputed.

Nevertheless, the court denied exhaustion. Why is that?

The court also referred to Article 15, Paragraph 2 of the Trademark Directive and asked the question whether or not there are legitimate reasons to oppose the commercialization of these goods.

The court referred to an earlier judgment of the CJEU in the *Coty Germany*¹² case, which was a case about antitrust and about the contractual restrictions in selective distribution systems.

But in this context the court held that “the quality of luxury goods is not just the result of their material characteristics but also to the allure and prestigious image which bestows on them an aura of luxury, and impairment to that aura of luxury is likely to affect the actual quality of those goods.”

The Düsseldorf court took this reasoning and said: “The permanent and extensive distribution of cosmetic product via the defendant’s online platform is capable of significantly impairing the image of the trademarks, and the way in which the goods were presented would draw the trademark into the everyday and ordinary,” and for this reason trademark exhaustion was denied.”

¹¹ Oberlandesgericht Düsseldorf [OLG Düsseldorf] [Higher Regional Court Düsseldorf] March 6, 2018, I-20 U 113/17, https://www.justiz.nrw.de/nrwe/olgs/duesseldorf/j2018/I_20_U_113_17_Urteil_20180306.html.

¹² Case C-230/16, *Coty Germany GmbH v. Parfümerie Akzente GmbH* (Dec. 6, 2017), <http://curia.europa.eu>.

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We can talk about the outlook in the discussion.

MS. BERGER: Thank you.

So, Tobias, is it fair to say that as a luxury goods company in Europe, maybe even specifically in Germany, you are doing quite well under trademark law?

MR. TIMMANN: Yes, of course, as a luxury goods producer. It is a single judgment, and maybe this is the starting point for very good times for the owners of luxury trademarks in Germany or in the Düsseldorf court.

MS. BERGER: Specifically.

MR. TIMMANN: But I am not so sure if this decision will really stand because if you take the general considerations, which are the reasons for trademark exhaustion, into account — the free movement of goods within the internal market, and that the essential function of the trademark that should be protected is the guarantee to identify the origin of the trademarked product — those considerations in cases like the *Kanebo* case would speak in favor of an exhaustion of the trademark rights. So I'm not sure if at the end this will be case law which will be overcome in the next few years.

MS. BERGER: Okay. Thank you.

We have Daan on the panel, who represents Omaha for us — what Hugh would call “the hinterlands” — because we really needed someone who is not engrossed in luxury and iconic brand items at all times.

So Daan, please.

MR. ERIKSON: Thanks, Lena. Yes, I'm here representing Middle America. I'm with the firm Husch Blackwell, shortly relocating to our Chicago office, but for the past four-and-a-half years I've been located in our Omaha office, and before that worked for Hugh.

With that context in mind, I thought it would be interesting when we are thinking about the question that was presented for this panel — is there a separate set of laws that protects luxury or iconic brands aside from your more mainstream brands — as a U.S. practitioner I think the answer is definitely no. However, the answer in the United States appears to be very different from Europe.

The only place where you might see luxury or iconic brand owners have more success in enforcement is if they meet the standard for fame under U.S. federal law or if they are just putting more money behind the enforcement because they know that they need to make sure that the brands retain that level of recognition among their wealthier target consumers.

The point I want to make is that I think people are more willing to protect brands that they are familiar with. This also relates to Anderson's comment that familiarity may be different depending where you are. I have had the interesting experience of working in the Midwest and becoming familiar with many brands that when I was a New Yorker I was not familiar with.

For amusement, I sent a short list to my fellow panelists to see how many of them they would recognize. Just as one example, Valmont is a company that is very well-known as a manufacturer of irrigation systems used in agriculture. This is a global company. But Emily said that she knew VALMONT as a very different brand that I was not familiar with.

MS. BORICH: The luxury skin care line.

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MR. ERIKSON: I don't think I'm their target consumer, so that's fine.

MS. BERGER: I think that brings us back to a short comment that Anderson made. It's about your community. As a trademark owner, it comes down to your community of consumers or fans. Do you want to talk about that?

MR. DUFF: Sure. I had a very interesting moment. It was a teachable moment for me in Chicago, actually. I thought my client produced adult diapers. I flew to Chicago for a preliminary injunction hearing. A day or two before walking into the courtroom, the CEO called me up and said, "As my attorney I should probably let you know that we don't just make adult diapers. We make adult diapers for the adult baby diaper lover fetish community."

When my client put its money where its mouth was and we were going to walk into court, the white-shoe attorney who had been representing the other side dropped out, so they were scrambling to find another attorney. A very distinguished member of the bar who is the assistant director of the IP department at John Marshall Law School in Chicago with Daryl Lim, was opposing counsel. One of the greatest moments of my life was when the judge asked him to define the relevant consumer for those products.

The teachable moment for me was that when I walked into that courtroom — and I had never before had an audience — it was an entirely packed courtroom. They were all people from the community, because it's a very tight-knit community as I've learned, and they care a lot about their brand.

All the companies that succeed in that industry do a lot of consumer outreach and consumer education, they are very transparent, and they tell the community why they are bringing a certain trademark lawsuit. Because they are so tight-knit and vocal, I have apparently become the go-to attorney for the adult baby diaper lover fetish community. You don't have to take my word for that. It's all over Reddit.

MS. BERGER: But that might be the point, right? When the first *Louboutin* case was filed, I remember at the Fordham IP Institute that some members of the team had to educate other members on the team about what LOUBOUTIN actually was. There was already a tight-knit community, people were aware of the brand, but it was a niche brand for fashion enthusiasts. Louboutin's real trademark fame came because of the lawsuits, right?

This is time for our general discussion. We have eleven minutes left. There you go.

QUESTION [Aloys Hüttermann, Michalski Hüttermann, Düsseldorf]: I must say I have a little difficulty with these exhaustion cases, which started with the *Coty* case. It is not really that there is a different set of laws for luxury goods and other goods. I would say it is a different set of laws for existing luxury goods and new luxury goods.

You can only relate to exhaustion and say there was no exhaustion if you are already famous. If you are not — and this is what Peter says, which is I think an important point — that if you have a famous mark now and there is a case about this, then this should help future marks that also want to get famous.

If you are now building up a luxury brand which you think is a luxury brand but Real just buys it and sells it, you cannot prevent it because you are not famous. If you cannot prevent it, then you will never be a luxury good because then people will say, "Well, look, your stuff is being sold at Real." It's like a Catch-22 situation.

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I must say I'm not too happy with that. Maybe you could comment on that.

MR. TIMMANN: I think you already noticed from my comment that I also am not that happy with this decision. It all comes down to the question of what is a luxury good? Before I read this judgment I didn't know the KANEBO brand. Maybe it is because I do not use cosmetics. But even now, when I talk to friends — KANEBO, okay, maybe it is a luxury brand or a luxury good, but I don't think it's that famous in Germany.

If you have two different sets of laws, then really you have demarcation problems to say in which direction the case should run. "Is it a luxury good or not" I think is not good for trademark law.

What I recognize with my clients is that now everyone is a luxury brand and tells me that all the case law is applicable to them because they are of course luxury. Then, at the end, maybe it is very much about convincing a single judge or a panel of judges that you are a luxury brand, and this really, as we already said here, very much depends on the private life of the single judge maybe.

PROF. DR. RUESS: Just a short comment. First, I do think it is still possible to develop a luxury brand. As Aloys rightfully mentioned, the LOUBOUTIN mark, for example, is relatively recent. It came into a market filled with luxury shoes from many other labels. But it was nothing totally new.

Second, I understand that it is not something you like, but when we talk about two separate sets of law it would probably help to see that when you talk about law coming out of the European Union you have to very closely watch whether the case was decided by a national court or the CJEU. A German national court will regard a trademark largely as a source indicator, which is why I was surprised about this very interesting decision that Tobias referenced. Whereas the CJEU has always — as we've seen in the *Mitsubishi*¹³ decision and many others — been extremely careful about protecting the investment. That is a fundamentally different approach. So in the CJEU the motivation behind the decision may be different from what it is in a national decision.

Given the system of the courts, of course it is inevitable that the national court does not want to be bashed all the time by the CJEU, so they might move in the direction of protecting the investment function, which is very dear to the CJEU, and that is something which inevitably is more likely to be found within the luxury market than within the common goods market.

MS. BERGER: Thank you, Peter. There were more questions over there.

QUESTION [Manuel Wegrostek, Gassauer-Fleissner, Austria]: Just a quick question for Tobias. From my understanding of the case in the Düsseldorf court, did the court just say that any sale over the Internet of a luxury good at all would be damaging to the reputation or did it consider the facts of the case? Is Real a discount supermarket? I don't know that supermarket chain.

MR. TIMMANN: Real is not a discount supermarket chain, but it has discount products in its offering.

MS. BERGER: It's at the lower end of the spectrum, and it's known for selling gray-market goods.

¹³ Case C-129/17, *Mitsubishi Shoji Kaisha Ltd v. Duma Forklifts* (July 25, 2018), <http://curia.europa.eu>.

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QUESTIONER [Mr. Wegrostek]: Does that mean in effect that any sale over the Internet would be damaging?

MR. TIMMANN: No, the court did not say that any sale through the Internet would lead to impairment of the reputation. But the court indeed looked at the environment where the products were offered — the KANEBO products were offered beside the discount products of Real — and then said in this environment they are drawn to the ordinary.

QUESTIONER [Mr. Wegrostek]: But there are some brands that actually restrict their sales to just brick-and-mortar retailers, and that's permissible. I don't know if I'm correct about this from my knowledge of fashion, but as far as I know, LOUBOUTIN or similar luxury brands would only be sold through brick-and-mortar stores, and that is still permitted under antitrust law as far as I understand.

MR. TIMMANN: Yes, it is.

MS. BERGER: Thank you.

QUESTION [Gordon Humphreys, EUIPO Boards of Appeal, Alicante]: We have interpreted "iconic" as meaning luxury, but iconic is not always luxury. Take MONSTER or RED BULL; they are household names. To me iconic is something that's a household name.

I think the question is aren't we giving more protection to iconic brands than other brands? I think the answer is clearly yes, especially in the domain of famous marks or marks with a reputation, such as the ones I've just mentioned.

The problem with that — and Peter is quite right that in Europe at least it is an investment consideration — is are we in danger of encouraging trademark bullies here, which is something we didn't get an opportunity to discuss? I looked at a list of so-called "trademark bullies" on this side of the Atlantic, and it was very interesting that the Monster company was number one. I think that few would disagree that wasn't also the case on the other side of that Atlantic.

So my question is, do you think that by giving this added protection to iconic brands that we do in fact encourage bullies?

MR. DUFF: I would like to speak to that. I am good friends with the former director of the Suffolk IP Clinic, who litigated against Monster incessantly, so I have a personal animosity toward that particular trademark bully.

But I think whether or not a company is a trademark bully depends on the quality of its attorney and the people running the company. At least in the United States, I don't think it is the idea of dilution that creates the trademark bully. I think it's the idea that if you don't police your trademark, then you run the risk of losing your rights, and that is to protect the consumers from confusion.

To get back to my earlier comment, I think that good attorneys will advise their clients that there are ways to police your trademark without being a bully. You can be like my parents were, stern but loving. I think it is all in the approach that you take.

Monster is apparently run by monsters. I don't know who their attorneys are. The ones that I do know I'm not going to mention. I would like to think that their attorneys tried to talk them out of that. Otherwise, maybe cynically, they just wanted to get some billable hours there.

But I don't think it's the idea of dilution or giving added protection to iconic brands that creates bullies. I think bullies are probably created in middle school.

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MS. BERGER: One more question.

QUESTION [William McNichol, Rutgers Law School]: The idea that luxury goods can be resold in a manner that detracts from the cachet that's attached to them ignores the fact that the original purchaser may in fact be somebody who uses the product in a way that detracts from the cachet. Not every woman who buys a LOUBOUTIN shoe is six foot tall, weighs ninety-five pounds, and looks like Carrie Bradshaw. Middle-aged, balding men going through midlife crisis buy high-end sports cars.

If you are not going to restrict your purchasing public to people who reflect your luxury cachet, it seems a little bit late in the game to then keep that purchaser — who you gladly took money from — from reselling it to somebody else in some other fashion, in some other packaging.

MR. DUFF: I think that's a great point.

MS. BORICH: I'll jump in. I think that brand owners have the right to control the quality of their goods, their own community. This goes back to what Daan said earlier: brands do have a sense of community and work hard to attract and market to the type of consumers who fit in that community. I think it does seem a little far-reaching to say that brands can restrict some consumers from purchasing their goods.

But you know what? Some of them do, like Hermès, for example. You can't just walk into a store and buy a Birkin bag: you need to be on a list; you need to be approved. So, on some level I guess brands do do that.

MS. BERGER: Peter, one very final thought.

PROF. DR. RUESS: Just one thought. There was a Federal Supreme Court case¹⁴ in Germany where Rolex had a watch that somebody purchased and added X thousand diamonds on it. Rolex just cached it and said, "It doesn't look nice. We don't give it back to you." They lost that case in all instances, until the Federal Supreme Court said, "Trademarks are made for men; men are not made for trademarks." That probably bolsters your point.

MS. BERGER: On that note, thank you, panel.

¹⁴ Bundesgerichtshof [BGH] [Federal Court of Justice] Feb. 12, 1998, *Neue Juristische Wochenzeitschrift* [NJW] 1998, 2045.