FROSS ZELNICK LEHRMAN & ZISSU, P.C.

EDITOR: KAREN LIM

MARCH 2018

MANAGING INTELLECTUAL PROPERTY 2018 has again named Fross Zelnick in the first tier in the United States in the Trademark Contentious and Trademark Prosecution categories.

WTR 1000 ranked Fross Zelnick in the Gold Tier in the United States in its 2018 rankings of *The World's Leading Trademark Professionals*. Specific mention was made of **SUSAN UPTON DOUGLASS** and **BARBARA SOLOMON** for U.S.-National, and **LAWRENCE APOLZON**, **CARA BOYLE**, **CARLOS CUCURELLA**, **DAVID DONAHUE**, **DAVID EHRLICH**, **LYDIA GOBENA**, **JANET HOFFMAN**, **NADINE JACOBSON**, **RICHARD LEHV**, **JOHN MARGIOTTA**, **CRAIG MENDE**, **PETER SILVERMAN**, **ALLISON STRICKLAND RICKETTS**, **JAMES WEINBERGER**, and **ROGER ZISSU** for U.S.-New York.

WE ARE PLEASED TO ANNOUNCE THAT LEO KITTAY became a Partner of the firm effective January 1, 2018. Leo litigates and counsels clients on trademark, copyright, unfair competition, false advertising, right of publicity and related commercial matters across diverse industries. A significant amount of Leo's time is devoted to advising startup and emerging growth companies—from promising early-stage ventures to some of the most celebrated startups in the world—on all matters relating to brands and content. Currently serving on the NationSwell Council, a membership community of service-minded leaders, Leo is a former member of the Brooklyn Law School Board of Trustees and the New York City Bar's Media and Communications Law Committee. Leo is a graduate of Princeton University, where he earned an A.B. in Philosophy cum laude in 1996 and was awarded The Class of 1869 Prize in Ethics. He graduated from Brooklyn Law School magna cum laude in 2008, where he was a member of the Order of the Coif, a Faculty Scholar and a Prince Scholar, and was awarded the Donald W. Matheson Memorial Prize and the Gerald Shargel Scholarship for Excellence in Criminal Law. Leo also served as Articles Editor of the Brooklyn Law Review. Before joining Fross Zelnick, Leo served as law clerk to the Honorable Alvin K. Hellerstein, United States District Court for the Southern District of New York. Prior to attending law school, Leo worked as a theater and television actor in New York City for nearly ten years.

DAVID DONAHUE coauthored an amicus brief submitted to the United States Court of Appeals for the District of Columbia Circuit on behalf of the International Trademark Association (INTA) in *American Society for Testing and Materials et al., v. Public.Resource.Org, Inc.*, Dkt. No. 17-7035 (4th Cir.). In support of the Appellees, INTA urges the Fourth Circuit to affirm a decision of the United States District Court for the District of Columbia in which the district court held, among other things, that the United States Supreme Court's ruling in *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23 (2003), did not preclude the Appellees' Lanham Act trademark infringement claims where the Defendant-Appellant created error-ridden digital copies of Appellees' safety standards bearing Appellees' trademarks and made them available online. INTA's brief asks the Fourth Circuit to rule that the trademark owners may assert Lanham Act claims over misattribution or unauthorized use of trademarks in connection of goods that contain copyrightable materials.

ALLISON STRICKLAND RICKETTS was quoted in a March 7, 2018 article by *World Trademark Review* on the launch of a pilot program by the United States Patent and Trademark Office to combat fraudulent specimens submitted in trademark applications. She commended the Office "for giving stakeholders an avenue to help fight fraudulent trademark applications," noting that "[i]t is challenging enough for entrepreneurs and others to find a trademark to use for their business, without having the register cluttered with registrations based on false claims of use." The pilot program facilitates the reporting of "digitally created, altered or fabricated" specimens by making available a dedicated email address, TMSpecimenProtest@uspto.gov, to which anyone can send such reports. Information on the evidence that must accompany such reports can be viewed at www.uspto.gov.

JAMES WEINBERGER was quoted in the December 12, 2017 *World Trademark Review* article on the jury verdict by the U.S. District Court of San Diego rejecting the contention that San Diego Comic-Con's mark COMIC-CON mark had become generic. He stated that "Taking it to jury and winning shows real determination and resolve… That their mark has been upheld will have more of an atmospheric effect than a precedential effect. It is empowering because every cease and desist letter they write from now on can refer to the fact that a federal jury found their mark valid and another convention liable. This is a very valuable tool as part of an enforcement strategy."

FROSS ZELNICK welcomes **ROBIN WARREN** as an associate in our International group and **SEAN HARB** and **MELISSA GOLDSTEIN** as associates in our Litigation group. Robin received her J.D. from Brooklyn Law School and her B.A. from Cornell University. Sean received his J.D. from Stanford Law, an M.A. in Teaching from American University, and a B.A. with Highest Honors from the University of California, Berkeley. He clerked for the Honorable Edgardo Ramos at the U.S. District Court for the Southern District of New York. Melissa received her J.D. from New York University School of Law and her B.A. from the University of Pennsylvania. We also welcome back **ROBIN N. BAYDURCAN** as an associate in our International group. Robin returns to us after a year as in-house counsel at a real estate corporation.

FROSS ZELNICK LEHRMAN & ZISSU, P.C.

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Information Letter

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UNITED STATES

Southern District of New York: PRECLUSIVE EFFECT GIVEN TO TTAB DECISION ON LIKELIHOOD OF CONFUSION IN TRADEMARK INFRINGEMENT LITIGATION

JCeasri S.R.L. v. Peju Province Winery, L.P., 2017 WL 6509004 (S.D.N.Y. December 11, 2017)

In 2015, the U.S. Supreme Court held in *B&B Hardware, Inc. v. Hargis Industries, Inc.*, 135 S.Ct 1293 (2015), that a decision of the Trademark Trial and Appeal Board of the U.S. Patent and Trademark Office ("TTAB") on the issue of likelihood of confusion "may" preclude a federal court from reaching a contrary conclusion on the issue in a subsequent infringement action. The Supreme Court's ruling is summarized in the following sentence from that opinion: "So long as the other ordinary elements of issue preclusion are met, when the usages adjudicated by the TTAB are materially the same as those before the district court, issue preclusion should apply."

Because the TTAB typically does not look to real-world usages of the marks made by the parties when assessing likelihood of confusion, including uses of logos or housemarks, while such real-world usages are critical to the likelihood of confusion analysis of federal courts in infringement actions, the Supreme Court readily acknowledged that "for a great many registration decisions issue preclusion obviously will not apply because the ordinary elements will not be met." Justice Ginsburg noted the same point in her short concurring opinion, explaining that "for a great many registration decisions issue preclusion obviously will not apply . . . because contested registrations are often decided upon a comparison of the marks in the abstract and apart from their marketplace usage."

Given these statements by the Court about the limited factual nature of a TTAB decision on likelihood of confusion, many practitioners wondered whether a TTAB decision on likelihood of confusion would ever be given preclusive effect in a subsequent federal court infringement litigation. We now know the answer is "yes," as a federal court in New York, relying on *B&B Hardware*, recently gave preclusive effect to a TTAB decision on likelihood of confusion, thereby precluding the defendant from contesting plaintiff's likelihood of confusion claim. *Ceasri S.R.L. v. Peju Province Winery, L.P.*, 2017 WL 6509004 (S.D.N.Y. December 11, 2017)

The Facts of the Cesari Case

Plaintiff Cesari S.R.L. ("Cesari") is an Italy-based winery that has sold red wine in the United States under the trademark LIANO since 2001. In August 2001, Cesari obtained a federal trademark registration for LIANO in International Class 33 for "wines." Defendant Peju Province Winery ("Peju") is a Northern California-based winery, which began selling white dessert wine under the trademark LIANA in 2002. In 2003, Peju applied to register LIANA for "wine" in International Class 33, but Cesari opposed the application in the TTAB, asserting likelihood of confusion with Cesari's LIANO mark.

In July 2004, the TTAB granted Cesari's motion for judgment on the pleadings, finding that there was a likelihood of confusion. The TTAB refused to consider Peju's evidence that the parties' products (i) were different kinds of wine (red vs. white), (ii) originated from different areas (Italy vs. Napa Valley), (iii) were sold to sophisticated consumers at high prices, and (iv) were sold in differing channels of trade. In doing so, the TTAB cited well-established TTAB precedent holding that in assessing likelihood of confusion, the TTAB looks only at the goods as set forth in the application, "regardless of what the record may reveal as to the particular nature of applicant's goods, the particular channels of trade, or the class of consumers to which sales are directed." In other words, the TTAB's likelihood of confusion analysis presumes that the goods listed in an application move through all "reasonable trade channels" for such goods to all "usual classes of consumers" for such goods, regardless of what actually happens in the marketplace. Accordingly, the TTAB refused to register Peju's LIANA trademark.

Peju did not appeal the TTAB's decision to the U.S. Court of Appeals for the Federal Circuit. Instead, since a TTAB decision does not have any impact on an applicant's ability to use its mark, Peju simply continued to use the LIANA mark for its white dessert wine and, in fact, started expanding its operations in 2013 to add other kinds of white wine, as well as opening a new winery called "Liana Estates." This expansion was apparently too much for Cesari, which filed a trademark infringement lawsuit against Peju in Spring 2017—*i.e.*, 15 years after Peju had started using the LIANA trademark and 13 years after the TTAB's original decision refusing to register the LIANA mark.

Cesari filed an early motion for partial summary judgment in the lawsuit, arguing that, under *B&B Hardware*, Peju was precluded from litigating the issue of likelihood of confusion because the TTAB's 2004 decision had already decided that issue. The Court agreed and granted the motion.

The District Court's Opinion

The court first identified the four elements required to establish issue preclusion: (1) the issue in both proceedings are identical, (2) the issue in the prior proceeding was actually litigated and actually decided, (3) there was a full and fair opportunity for litigation in the prior proceeding, and (4) the issues previously litigated were necessary to support a valid and final judgment on the merits. The only hotly-contested element was the first element, namely, whether the TTAB had already resolved in 2004 the same issue that was currently before the district court.

Turning to this element, the court acknowledged the different kinds of facts considered in federal court versus the TTAB in determining a likelihood of confusion, explaining that a federal court is "focused on what is happening in the marketplace rather than in an application or registration," while the TTAB on the other hand "analyzes the marks, goods, and channels of trade only as set forth in the application and in the opposer's registration, regardless of whether the actual usage of the marks by either party differs." In light of this crucial distinction, Peju argued that the issue resolved by the TTAB in 2004 was *not* identical to the issue before the federal court, particularly given the real-world differences between the parties' marks and products that were not considered by the TTAB, namely different kinds of wine, different labels, sophisticated consumers, different channels of trade, and different geographic regions. But the Court rejected this argument, saying it was a "distinction without a difference."

Specifically, the Court stated that, despite these analytical differences, the Supreme Court in *B&B Hardware* held that the TTAB's likelihood of confusion determination is entitled to issue preclusion "[i]f a mark owner uses its mark in ways that are materially the same as the usages included in its registration application." According to the Court, Cesari and Peju "each use their mark in ways that are materially the same as the usages adjudicated by the TTAB," namely, both parties use their respective marks for "wines." The Court rejected Peju's argument that it actually used its LIANA mark in a manner materially different than that considered by the TTAB, *e.g.*, in different trade channels to a specific and sophisticated consumer base, because each of these "narrower usages," the Court reasoned, was "entirely encompass[ed]" by the TTAB's 2004 analysis, which "presume[d] that the goods move through all reasonable trade channels for such goods to all usual classes of consumers for such goods."

The Court's holding on this point appears to misunderstand the difference between a TTAB's determination of likelihood of confusion and that of a federal court in adjudicating an infringement claim. In short, the District Court held that the TTAB, by admittedly *not* considering the narrower usages shown by Peju, somehow *did* consider those usages because the TTAB's broad analysis of all "reasonable trade channels" and all "usual classes of consumers" necessarily encompassed the narrower, actual marketplace usages proffered by Peju. But trademark practitioners familiar with TTAB practice know that this is not an accurate statement about how the TTAB's likelihood of confusion analysis works. By reasoning that the parties' actual marketplace usages are "entirely encompass[ed]" within the broader circumstances of use presumed by the TTAB, the court blurred (if not erased) the fundamental factual difference between a likelihood of confusion determination by a federal court and the TTAB—a difference the Supreme Court went out of its way to note in the *B&B Hardware* decision.

Based on this (mis)application of *B&B Hardware*, Peju was barred from defending a claim of likelihood of confusion on the basis of how it and Cesari actually use their marks in the marketplace. This result is particularly severe for Peju, since it also prevented Peju from making the compelling argument that confusion is highly unlikely given that the parties have coexisted in the marketplace for 15 years without any instances of actual confusion—an argument that was not available to Peju in the TTAB in 2004.

Lessons From the Case

The *Ceasri* case serves as a stark lesson that parties in the TTAB and their counsel must take TTAB proceedings very seriously and carefully consider and determine what types of evidence to solicit and introduce in TTAB proceedings. Moreover, litigants who are unhappy with the TTAB's decisions should now be more inclined to appeal the decisions to the U.S. Court of Appeals for the Federal Circuit or to a federal district court. Why forego review of a TTAB decision by one federal court and take the risk down the road that a later federal court will hold that the TTAB decision has preclusive effect?

Finally, in order to avoid being precluded forever from introducing and relying on actual marketplace usages, defendants in TTAB proceedings may now be more inclined to file declaratory judgment actions of non-infringement in federal court in response to the filing of a TTAB proceeding, and ask the TTAB to suspend the proceeding while the federal court case proceeds, which is a routine course of action for the TTAB.

-JDJ

USPTO: New USPTO Trademark Use Audit in Registration Maintenance / Renewal Filings (Section 8 and Section 71 Use Declarations)

Under a new procedure in the United States Patent and Trademark Office ("USPTO"), trademark registration maintenance and renewal filings are randomly selected for audit when the goods or services list includes multiple items. In the audit, the examiner issues an Office action requesting proof of use of the mark for two additional goods or services per class in the registration that were not shown in the specimen(s) of use filed with the maintenance filing. Failure to file a response will result in cancellation of the whole registration. The additional proof of use, such as photographs of packaging for each of the two additional goods or copies of advertisements for services, must be supported by a declaration signed by the registrant. This procedure reflects the results of a similar pilot program conducted by the USPTO a few years ago. The pilot program showed that a large percentage of registrants claim use of the mark in the U.S. for non-existent, excess goods or services in maintenance and renewal filings. The expense of responding to these Office actions can be considerable.

One Specimen or Many?

This program does not change the current USPTO practice on specimens, that is, that only one specimen of use per class need be filed with the initial Section 8 or Section 71 continued use declaration. Most registrants find it convenient to file only one specimen per class, rather than look for specimens for additional goods or services in the class, at least when filing the initial Section 8 or Section 71 maintenance filing. If a registrant files only one specimen, it should preserve records containing specimens for other goods or services, in case of a use audit Office action.

However, if the registration covers a small number of goods and services, and the specimens of use for all the goods or services are readily available, then there is a potential benefit in filing them all with the initial Section 8 or 71 declaration. Doing so will very probably avoid a use audit Office action, even if the registration is initially selected at random for audit.

Avoiding a Further Office Action

Also, if the registrant files a response to the Office action that deletes either or both of the two additional goods or services questioned in the Office action, but other goods or services remain in the registration, then that will trigger another audit Office action requesting specimens for all other goods or services in the registration. To avoid such a further Office action, the registrant should provide, in the response which deletes the unused goods or services, proof of use for the other goods or services in the registration. If there was no use in the U.S.

for the other goods or services when the initial Section 8 or 71 was filed, then all the excess goods or services should also be deleted in the response.

Of course, for a registration covering one product or service for which the mark is in use, plus excess goods or services, the Office action could be avoided by deleting all excess goods in the original Section 8 or 71 filing or, better, not covering excess goods or services in the initial application, as further discussed below.

Benefits of Filing Narrowly in the U.S.

Practitioners, and especially non-U.S. practitioners, should keep in mind that the USPTO definition of acceptable "use" of a mark, to support an initial application or a Section 8 or 71 use declaration, is much stricter than practice outside the U.S. In most foreign countries, proof of use is not required with applications or renewals at all, and the issue tends to arise mainly in non-use cancellation actions. Sufficient use to resist cancellation often consists of minimal activity, such as advertising, rather than actual sales and delivery of products or services, and proof of use can consist of a wide variety of items, such as advertisements. In the USPTO, mere advertising inthe U.S., without sale and delivery of the goods or services to U.S. customers, is usually not considered a sufficient use. Contrived "token" use is usually invalid. Acceptable specimens for marks for goods do not usually include invoices, brochures, web pages, or advertisements. A full description of acceptable activities constituting use of a mark, and what constitutes an acceptable specimen of use, if the use activity exists, is beyond the scope of this newsletter item. It is sometimes the case, however, than an acceptable specimen exists (such as a photograph of packaging showing the mark on goods sold outside the U.S.), but that the activity involving the product is insufficient to constitute "use" in the U.S. Conversely, an acceptable "use" activity in the U.S. may exist, such as actual sales and deliveries of the product to U.S. customers currently, but no good specimen exists. Knowledgeable U.S. counsel can help with these issues.

Finally, issues of excess goods and possible audit Office actions at the maintenance stage can also be avoided, or at least minimized, by filing applications for registration for only one or two goods or services of actual interest and omitting excess items (such as those in the "standard lists" and class heading language). This is contrary to the usual practice in most foreign countries and tends to be contrary to the expectations of most foreign trademark owners, who prefer broad lists of goods and services. However, U.S. law requires more limited lists. For all U.S. trademark application bases (other than actual use), a clear intent to use the mark in the U.S., provable with documents such as a business plan for all claimed goods and services (or at least testimonial evidence), is required under U.S. statutory and case law. For applications based on use under Section 1(a) of the U.S. Trademark Act, "actual use" in the U.S.—under the narrow definition of "use" discussed above—is required. Failure to comply with these requirements by overclaiming goods and services can weaken or invalidate the registered rights. See our discussion on proving use at March 2016 Newsletter. The new audit procedure is only the latest USPTO effort to tackle problems caused by overclaiming.

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Information Letter

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International

Argentina: Industrial Property Laws Reformed

A Presidential Decree published on January 11, 2018 introduced procedural changes with respect to applications and registrations for trademarks, patents, and designs. As to trademarks, the changes are intended to shorten prosecution and streamline oppositions. Significant amendments affecting trademarks are:

- A multiclass filing system will be adopted.
- By a regulation issued on January 16, 2018 partially implementing the Decree, the term for responding to Office actions in preliminary examination was shortened to 30 days from 180 days. The new 30-day term applies only to Office actions notified after the regulation came into effect.
- Oppositions are now decided by the Trademark Office. Previously, they were decided by Federal Courts.
- The one-year term previously allowed for reaching settlement after oppositions were notified is now

reduced to three months. If the parties have not reached an amicable settlement after three months, the Trademark Office will decide the case in accordance with procedures that have yet to be established.

- The one-year term still applies to already-notified oppositions unless the applicant voluntarily points out to the Trademark Office that no agreement was reached with the opposer or the opposer submits new grounds in support of the opposition.
- Any oppositions notified after January 12, 2018 fall under the new three-month term.
- A declaration of use of registered trademarks is now required to be filed at the fifth anniversary of the registration. Regulations establishing the procedure are to be issued.
- The Trademark Office now has the power to decide the nullity of registered trademarks, or to partially cancel a registered trademark, either ex-officio or at the request of a third party, where there has been no use within five years before the expiration request, unless there were "causes of overwhelming force." A registered trademark will not lapse if it is used in connection with goods and services related to those specified in the registration, even if they fall in different classes.
- Decisions of the Trademark Office may be appealed to the Federal Courts.

-*KL*

Australia: NEW SOUTH WALES SUPREME COURT ISSUES WORLDWIDE INJUNCTION V. TWITTER

X v. Twitter Inc [2017] NSWSC 1300

In a decision which has received considerable local commentary in Australia, the equity division of the New South Wales Supreme Court has granted a worldwide injunction against Twitter (namely Twitter Inc., the U.S. company, and its Irish affiliate Twitter International) concerning a disclosure issue related to confidential financial information. The decision is viewed as controversial because of its worldwide scope against a social media platform and the anonymity of the moving party described as Plaintiff "X" in the decision. This brings to mind the recent decision by the Supreme Court in Canada granting a global injunction against Google [*Google, Inc. v. Equustek Solutions Inc.* (2017 SCC 34)] (which was reviewed in our September 2017 newsletter.

The use of so-called "super injunctions" and the grant of anonymous party injunctions (where the moving party's name is kept secret) are somewhat controversial in Australian and English law but are well established in order to protect trade secrets and confidential information. Anonymous party proceedings are often used to protect celebrities and their private lives (although such proceedings are also considered controversial by some). Although super injunctions are much less common in Australia than in the U.K., the grant of injunctions to anonymous parties are not uncommon in Australia both by federal and state courts when applying statutes involving broad suppression orders.

Apparently, the court in this case viewed it as significant that Twitter did not present any formal appearance in the proceedings.

In the words of the court:

> I have taken into account the assertion in the Twitter email that it is "not feasible to proactively monitor user content for Offending material." But the defendants chose not to put any evidence before the Court to explain their systems and processes or the factual basis for their contention. As counsel for the plaintiff stated "Unfortunately, we just don't have the defendants here to explain what is

involved" and "That's a deficit brought about by the position taken by the defendants."

Although this case did not involve any intellectual property issue, it is noteworthy for the fact that another global injunction has been issued by a British Law jurisdiction and we may be seeing additional worldwide injunctions in the future, especially in cases involving social media websites such as Google and Twitter.

-SB

China: Unfair Competition Law Amended

Amendments to China's Unfair Competition Law came into effect on January 1, 2018. These were the first amendments since the law was introduced in 1993. Salient features of the amended law include the following:

- Product name and trade dress (defined as packaging and decoration): The criteria for determining infringement have been broadened. Previously, the product had to be famous and the name and trade dress had to be unique. Now, the name and trade dress must have "certain influence" and the allegedly-infringing product must potentially cause confusion or be misleading. Moreover, "confusion" now includes "special association" such as licensing. But the new law notably does not specify "product shape" as part of trade dress.
- Trade name: As for product names, the criteria for determining infringement include certain influence and confusion. If a trade name is found infringed, the company name registry will replace it with social credit numbers (the company code for the identity and credit record) before a new name is adopted, so as to prevent the infringer from delaying or refusing to change its name. Trade names include pen and stage names, translated names, the dominant part of a domain name, and website or web page names.
- Misrepresentation: The scope of actionable misrepresentation has been enlarged. Under the old law, business operators could not promote products by providing "false and misleading statements." The new law prohibits "false or misleading statements." The new law arguably enables action against misleading practices.
- Internet practices: Unfair competition behaviors over the Internet are now specified, whereas previously they were adjudicated under the general principle of good faith. The specific prohibited conduct include –
  - o Inserting a link or forcing a URL redirection for a product or service legally provided online by another business without consent;
  - o Misleading, defrauding, or forcing users to alter, shut down, or uninstall a product or service legally provided by another business; and
  - o Causing in bad faith incompatibility with an online product or service legally provided by another business.
- Enforcement agency powers: The amended law enhances the powers of law enforcement agencies, such as the power to detain infringing goods and to search infringers' bank accounts. The latter power is not provided under trademark or copyright law. Further, the penalties that law enforcement agencies may impose are now significantly increased.n a recent and anticipated decision issued by the

-KL

European Union: EJC's Coty Decision is a Win for Luxury Brands

Coty Germany GmbH v. Parfumerie Akzente GmbH, European Court of Justice, Case No. C-230/16 (December 6, 2017).

In a recent and anticipated decision issued by the European Court of Justice (the "ECJ" or "the Court"), the Court held that luxury brand owners can, in certain circumstances, prohibit authorized distributors from selling goods on third-party online marketplaces such as Amazon.

A. Background

The Plaintiff, Coty Germany GmbH ("Coty"), sells luxury cosmetics in Germany and has a distribution network of third parties that it uses to market its products in the luxury goods sector by way of selective distribution agreements. The crux of the selective distribution agreements is to support the "luxury image" of Coty's brands. For example, with respect to the distributor's retail locations, "the décor and furnishings of the sales location, the selection of goods, advertising and the sales presentation must highlight and promote the luxury character" of Coty's products. One of its authorized distributors is defendant, Parfumerie Akzente GmbH ("Akzente"), with whom Coty entered into a selective distribution agreement. Azkente has distributed Coty's products for many years through both its brick-and-mortar locations and online.

In 2012, Coty revised its selective distribution contracts to include a clause in which "the authorized retailer is entitled to offer and sell the products on the internet, provided, however, that that internet sales activity is conducted through an 'electronic shop window' of the authorized store and the luxury character of the products is preserved." Azkente refused to sign the amended agreement, and Coty initiated a legal action before the German court of first instance of Frankfurt am Main (the "district court") seeking an order prohibiting Azkente from distributing Coty's products through www.amazon.de. In its ruling issued on July 31, 2014, the district court dismissed the action on the basis that it was in violation of anti-competition laws because the objective of maintaining the prestigious brand image of a mark could not justify the use of a selective distribution system.

Coty filed an appeal before the Oberlandesgericht Frankfurt am Main ("Higher Regional Court"), and the proceedings were stayed as the question was brought before the ECJ regarding whether a selective distribution agreement which prevents the distributor from selling the goods in the online marketplace was in violation of governing EU competition law.

B. The ECJ's Decision

The ECJ concluded that the clause in Coty's selective distribution agreement is not in violation of governing competition law, assuming the clause meets several conditions. The agreement must be designed to preserve the luxury image and quality of the goods at issue and "sustain[] the aura of luxury surrounding them." The EJC considered the relevant case law and held that selective distribution networks are not prohibited by Article 101 of the Treaty on the Functioning of the European Union ("TFEU") where three criteria are met: (i) resellers are chosen on the basis of objective criteria of a qualitative nature, laid down uniformly for all potential resellers and not applied in a discriminatory fashion, (ii) the characteristics of the product in question necessitate such a network in order to preserve its quality and ensure its proper use; and (iii) the criteria laid down do not go beyond what is necessary.

The ECJ also highlighted the fact that the absence of a contractual relationship between the supplier of the luxury goods and the third-party online marketplace may be challenging in the enforcement context, as the supplier of the luxury goods is unable to ensure compliance with the quality conditions it has imposed on its authorized distributors. Sales on third-party platforms that are not parties to an agreement runs the "risk of deterioration of the online presentation of those goods which is liable to harm their luxury image and thus their very character."

C. Implications of the Decision

The decision now provides clear guidance to luxury brand owners seeking to maintain greater control of their online distribution channels. Luxury brands, through selective distribution agreements meeting certain criteria, may prohibit their distributors from selling goods through online platforms in order to "sustain the aura of luxury" and maintain exclusivity without violating governing competition laws. The decision was strictly limited to the luxury goods context—though the term "luxury" was not defined—and presumably the online marketplace ban would not be upheld in the non-luxury brand context.

-*MS*

European Union: Mark On Which Opposition Based Cannot Be Challenged On Ground Of Bad Faith

Aldi GmbH & Co KG v. European Union Intellectual Property Office (EUIPO); SKY plc Intervenor (Judgment of the General Court (Fifth Chamber) October 19, 2017 (Case T-736/15))

In 2013, Aldi GmbH & Co KG ("Aldi") applied to register the mark SKYLITE, covering, inter alia, a variety of goods in Classes 9 and 18 (details follow):

SKYLITE

Class 9: bags adapted for laptops; sleeves for laptops

Class 18: trunks and travelling bags; Boston bags; elastic bags for clothing; barrel bags; Gladstone bags; athletic bags; holders in the nature of wallets for keys; bags made of imitation leather; bags, pouches of leather; bags for clothes; wheeled shopping bags; pouches, of leather, for packaging; textile shopping bags; net bags for shopping; shopping bags; leather shopping bags

Sky plc (previously, British Sky Broadcasting Group plc) ("Sky") opposed, based on a number of earlier marks including, in particular, EUTM No. 006870992 for SKY covering, inter alia, "cases, containers, protective coverings and parts and fittings therefor, all for use with MP3 players, music storage devices, media storage devices and other consumer electronic devices" in Class 9 and "leather and goods made of leather and not included in other classes…trunks and travelling bags…handbags, backpacks, school bags, beach bags, …key cases…pocket wallets, purses, pouches….sling bags, shopping bags, suitcases garment bags, tote bags…none of the aforementioned being made from imitations of leather."

In response, Aldi requested proof of use of Sky's earlier marks, but was advised by the EUIPO that the request had not been considered since the earlier marks had not been registered for at least five years when the Aldi mark was published, as provided in Art. 42(2) and (3) of Regulation No 207/2009 and Art. 15(1) of that Regulation. The Opposition Division upheld the opposition and rejected the application for the Class 9 and 18 goods. Aldi challenged the decision before the Fourth Board of Appeal of EUIPO, which dismissed the appeal. The Board rejected the request for proof of use for the reason noted above, and upheld the finding of confusing similarity of the marks in respect of the goods sought to be covered. Aldi appealed further to the General Court, on two grounds of law: Namely, the EUIPO and Board erroneously (1) rejected its request for proof of use of the marks relied upon in the opposition and (2) found the marks/goods to be confusingly similar.

<u>Proof of Use</u>

With respect to proof of use, Aldi argued that although the marks relied upon in the opposition had not been registered for the requisite five years prior to publication of its mark, that requirement should be read in conjunction with Rule 22(2) of Reg. No. 2868/1995, governing "abusive" (in effect, bad faith) resort to repeated applications for the same mark, intended to circumvent the five-year requirement. Aldi claimed that Sky had engaged in such bad-faith conduct and thus should not be permitted to rely on the subject marks without proof of use. In particular, Aldi claimed that between 1995 and 2009 Sky "developed a 'practice of re-filing identical trade mark registrations' by asking, on several occasions, for registration of the word sign 'sky' as an EU mark or a national mark, in particular for goods within Classes 9 and 18…[which] 'clearly' had the one sole purpose of extending 'artificially' the 'grace period' referred to in Article 42(2) and (3) and Article 15(1) of Regulation No 207/2009."

The Court rejected this argument. While acknowledging that filing in bad faith can be an absolute ground to invalidate a mark under Article 52(1) of Regulation No 207/2009, it cannot be relied upon in the context of an opposition, the purpose of which is to contest an application for an EU mark based on prior conflicting rights. The Court noted that the case law is clear on this point—namely, that in the context of an opposition, the marks upon which an opposer relies will be deemed valid, and cannot be challenged based on criteria that constitute grounds to invalidate a mark. Such a challenge must be brought in a separate invalidity proceeding.

<u>Likelihood of Confusion</u>

Aldi also challenged the Board's finding of visual, aural, and conceptual similarity between the marks and the similarity of the goods at issue. The Court rejected this claim as well, noting that, based on settled case law, likelihood of confusion must be determined "globally…taking into account all factors relevant to the circumstances of the case, in particular the interdependence between the similarity of signs and that of the goods or services covered" (citing Laboratorios *RTB v OHIM – Giorgio Beverly Hills*, T-162/01, EU:T:2003:199, pars 30-33 and cases cited therein). Also based on prior case law, the Court pointed out that in making the "global" assessment of likely confusion, "account should be taken of the average consumer of the category of goods concerned, who is reasonably well informed and reasonably observant and circumspect…[bearing] in mind that the average consumer's level of attention is likely to vary according to the category of goods or services in question" (citing *Mundipharma v OHIM – Altana Pharma*, T-256/04, EU:T:2007:46, par. 42 and cases cited therein). The Court noted that the Board had restricted its assessment of likely confusion to the English-speaking public of the UK and Ireland, and "the point of view of the general public…with an average level of attention." With respect to Class 9, the Board had held, inter alia, that "bags adapted for laptops; sleeves for laptops" of the Aldi application were identical to Sky's "cases, containers, protective coverings and parts and fittings therefor, all for use with MP3 players, music storage devices, media storage devices and other consumer electronic devices." In particular, the goods of the Aldi application were included within "protective coverings for consumer electronic devices." As to Class 18, Aldi disputed the Board's findings relating to its "bags made of imitation leather" and Sky's "goods made of leather and not included in other classes." The Court pointed out, however, that while "there is a difference in terms of price, quality and durability" of these respective goods and it could not be "excluded" that some companies that produce leather bags do not necessarily offer bags made of imitation leather, these factors "do not however take away from the fact that the goods in those materials have the same intended purpose," and can be circulated in the same distribution channels as well as at the producer level. The Court also agreed with the Board's conclusion that Aldi's "athletic bags" and Sky's "sling bags" were also sufficiently similar, noting in particular that taking into account the intended purpose of these goods, "sling bags" would include "athletic bags" and are thus "highly similar."

The Court also rejected Aldi's challenge to the finding of visual, aural, and conceptual similarity of the marks. With respect to visual similarity, the Court agreed with the Board's conclusion, in effect, that the element SKY was the dominant feature of both marks, noting especially that this element appeared at the beginning of Aldi's mark, where it would attract the most attention. The Court rejected Aldi's argument that the figurative nature of its mark sufficed to give a different overall impression, especially given the distinctive and dominant character of the SKY element. For similar reasons, the Court affirmed the Board's conclusion of aural and conceptual similarity. Finally, the Court pointed out that the earlier mark was incorporated in its entirety as the first element of the Aldi mark, further supporting the conclusion of likely confusion.

In addition to affirming settled case law relating to likely confusion analysis, this decision stands as a reminder that marks on which oppositions are based are presumed valid and that any challenge to such prior rights based on bad faith or absolute grounds must be brought in separate invalidity proceedings.

-JLH

India: Supreme Court Applies Territoriality Principle and Eviscerates Toyota's Prius Victory

Toyota Jidosha Kabushiki Kaisha v. M/S Prius Auto Industries Ltd. & Ors, CS (OS) No. 2490 of 2009, Civil Appeal Nos. 5375-5377 of 2017

In a major upset to Toyota Jidosha Kabushiki Kaisha ("Toyota"), the Supreme Court of Delhi has tightened the standard for enforcing a reputed mark in India, and signaled a major shift in Indian law. Specifically, the Supreme Court has adopted a "Territoriality Principle," and now requires that goodwill be shown within the territory of India to enforce a famous, unregistered mark there. It will no longer be sufficient to show a "trans-border" reputation abroad.

Background

Toyota's first commercial use anywhere of the PRIUS mark was in 1995 at the Tokyo Motor Show. Sales of Toyota's PRIUS electric hybrid car began in 1997, in Japan, and PRIUS cars began to be sold in the United States and Europe in 2001 and 2002.

The Defendants, Deepak Mangal, Sandeep Verma, M/s Prius Auto Industries, and M/s Prius Auto Accessories Pvt. Ltd. (collectively, "Defendants"), began using the PRIUS mark in India in 2001 for all types of auto parts and accessories and for trade in these goods and obtained Indian registrations in 2002 and 2003. Subsequently, Toyota began promoting its PRIUS vehicle in India in 2009 and launched the PRIUS there in 2010. In 2009, Toyota brought suit against the Defendants, claiming passing off of its famous mark.

In 2016, a single judge of the High Court of Delhi held in favor of Toyota. The court recognized Toyota's unregistered PRIUS mark as a well-known mark worldwide, and enjoined the use of "PRIUS" by the defendants in connection with their auto parts business, notwithstanding the defendants' two Indian registrations for PRIUS in India predated the entry of Toyota's PRIUS vehicles into the Indian market. The single judge held that Toyota held superior rights in the PRIUS trademark, given that Toyota had been the first in the world to adopt the PRIUS mark. Upon a review of the evidence submitted by Toyota, as well as its independent review of additional books and articles, the Court concluded that PRIUS enjoyed an international reputation before the Defendants' adoption of PRIUS in 2001, and enjoined the Defendants from using the mark. Our detailed discussed can be viewed at [September 2016 Newsletter].

That decision was set aside, however, in December 2016 by the Division Bench of the Delhi High Court, which held that, with respect to the PRIUS mark, the plaintiff's evidence was insufficient to establish the trans-border reputation of PRIUS in India at the time the Defendants adopted the mark. Our detailed discussion can be viewed at [March 2017 Newsletter].

Supreme Court Decision

Toyota appealed the decision of the Division Bench to the Supreme Court of India. This past December 2017, the Supreme Court issued a decision rejecting Toyota's appeal. The Supreme Court noted that a central issue was whether it should adopt the "Universality Doctrine" which holds that a mark "signifies the same source all over the world," or alternatively whether to recognize the "Territoriality Doctrine," which posits that a trademark has a "separate existence" in every country, and that a claimant must show goodwill in a specific jurisdiction to be able to succeed on a passing-off claim there.

The Supreme Court decided to apply the Territoriality Principle, noting that the "overwhelming judicial and academic opinion all over the globe . . . seems to be in favour of the territoriality principle. We do not see why the same should not apply to this Country."

The Court further held that Toyota's evidence purporting to show goodwill and reputation all post-dated 2001, when the Defendants adopted the mark, and that no PRIUS advertisements were published in India before April 2001.

Under the territoriality analysis, it is not enough simply to show a wide international reputation. Instead, such reputation must be accompanied by evidence showing substantial goodwill in India. Here, the Supreme Court held that Toyota's advertisements in automobile magazines, international business magazines, and the availability of information about PRIUS on Internet portals such as Wikipedia, were insufficient to establish goodwill and reputation in the Indian market, particularly given the limited exposure of the Indian public to the Internet at the time Defendants began using PRIUS in 2001.

* * *

This decision marks a significant turning-point in Indian trademark practice. Going forward, rights owners will be required to show that they have acquired goodwill in the territory of India, in addition to a likelihood of confusion between the marks, in order to succeed on a passing off claim where they do not have prior registered rights. While international companies with an established presence in India, or with customers in the Indian market, should be able to meet this standard, it is now more imperative than ever that businesses contemplating use in India ensure that their trademarks are registered there as soon as possible.

-KLD

WIPO: Eleventh Edition Of Nice Classification

The eleventh edition of the Nice Classification entered into force on January 1, 2018. Fifteen class headings were amended and 334 new terms were added, including several new services. Details are available at: WIPO.

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