Protecting Your Assets: L'Oréal v. Bellure

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L'OREAL V. BELLURE

In what may be the most significant case for brands and trade marks in the last five years, the Court of Justice of the European Communities (ECJ) issued a decision in June in a case referred from the English Court of Appeal: L'Oréal v. Bellure. This is a landmark case that confirms that brand owners should have a legal right to prevent egregious look-alikes that intentionally trade off the brand image established by the brand owner, and sets much clearer limits on the boundaries of unlawful behaviour.

Central to the issues considered in this case is the scenario that plagues the owners of many famous brands. The latest research demonstrates that consumers primarily identify products by their shape and colour, rather than by the brand names used, which is why imitations are so prevalent. Is it really necessary for a supermarket cola product to be packaged in colours and a bottle reminiscent of the famous Coca-Cola livery? Of course not. So what can a brand owner do to protect the investment that has been made in its brands and to prevent the sale of "parasitic copies" that mislead their consumers into purchases they would not otherwise have made?

The EC Trade Marks Directive in 1994 ("TMD") included a ground for trade mark infringement that encompasses both dilution and tarnishing; but cases involving successful claims based on this provision were rare, and tended to be limited to specific instances where detriment was easily proven. Until recently, it remained the case that where a look-alike confused consumers into thinking that it was the branded original, there were remedies based on trade mark infringement or 'passing-off' in the UK, but where there was no evidence of confusion, the brand owner had little recourse.

Moreover, the failure by the UK Government to enact fully the Unfair Commercial Practices Directive ("UCP Directive") into UK law has meant that the possibility of directly enforcing a breach of its provisions, a remedy that is open to brand owners in other EU member states (such as Ireland), is not available in the UK.

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1 C-487/07, L’Oréal SA and ors -v.- Bellure NV and ors, 18 June 2009.
3 89/104/EEC, but since 29 November 2008, 2008/95/EC.
4 Article 5(2)
5 E.g Oasis Stores Ltd’s Application [1998] RPC 631 (EVERREADY) and A Sheimer (M) Sdn Bhd's Application (Opposition by Visa International Service Association [1999] E.T.M.R 519..
6 2005/29/EC.
In its recent guidance on the implementation and interpretation of the UCP Directive,\(^7\) the European Commission specifically confirms that where Article 2 (e) of the Directive refers to “material distortion of the consumer’s behaviour”, this means “to appreciably impair the consumer’s ability to make an informed decision, thereby causing the consumer to take a transactional decision that he would not have taken otherwise”.

The European Commission has confirmed that copycat and parasitic packaging (i.e. packaging that copies the brand leader but which is not counterfeit) carries a risk of consumer confusion, and thereby could distort consumer behaviour. It is hoped that the European Commission’s stance may encourage UK legislators to consider giving brand owners the right to enforce directly the prohibitions set out in the UCP Directive in the UK. This option, permitted by the Directive, was rejected by the UK government.

In the last two years, there have been a number of UK cases on the scope of section 10(3) of the Trade Marks Act 1994 (the “Act”) which states:

“A person infringes a registered trade mark if he uses in the course of trade in relation to goods or services a sign which is identical with or similar to the trade mark, where the trade mark has a reputation in the United Kingdom and the use of the sign, being without due cause, takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark”\(^\,8\)

The problem is complicated where the use of the look-alike could be construed as comparative advertising, which is permitted within the European Union where the advertisement complies with the criteria set out in the Comparative Advertising Directive\(^9\) (“CAD”).

The ECJ first considered how trade mark infringement and comparative advertising interacted in a reference from a UK court. In the \(O2\) -v- \(Hutchinson\)\(^10\) case, it held that the criteria set out in Article 3a(1) CAD are the relevant ones in assessing whether a comparative advertisement is lawful, but that use in comparative advertising is still trade mark use.

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7 EC Commission guidance on the interpretation and implementation of the Directive issued on 3 December 2009, paragraph 2.4.4.
8 The wording of section 10(3) of the Act differs slightly from Article 5(2) TMD since the UK Act was amended to incorporate the ECJ’s judgment in Adidas-Salomon AG v. Fitnessworld Trading Ltd (C-408/01), 23 October 2003.
9 97/55/EEC, which amended the Misleading Advertising Directive, (84/450/EEC), now consolidated by EC Directive 2006/114/EC on Misleading and Comparative Advertising, under which acts of alleged infringement that took place after 12 December 2007 would fall to be considered.
10 O2 Holdings Limited and O2 (UK) Limited v Hutchinson 3G Limited (Case C-533/06), 12 June 2008, ("O2").
Article 3a(1) CAD states:

“Comparative advertising shall, as far as the comparison is concerned, be permitted when the following conditions are met:

(a) it is not misleading according to Articles 2(2), 3 and 7(1);

(d) it does not create confusion in the marketplace between the advertiser and a competitor or between the advertiser’s trade marks, trade names, other distinguishing marks, goods or services and those of a competitor;

(e) it does not discredit or denigrate the trade marks, trade names, other distinguishing marks, goods, services, activities, or circumstances of a competitor;

(g) it does not take unfair advantage of the reputation of a trade mark, trade name or other distinguishing marks of a competitor or of the designation of origin of competing products;

(h) it does not present goods or services as imitations or replicas of goods or services bearing a protected trade mark or trade name.”

Where there was a likelihood of confusion (contrary to Article 3a(1)(d) CAD relating to marketplace confusion), this is potentially actionable through a trade mark infringement claim. Otherwise, use of another’s registered trade mark in a lawful comparative advertisement would be a defence to a trade mark infringement claim.

The O2 case, however, left a number of questions on the interpretation of Article 3a(1) CAD unanswered and the English Court of Appeal in L’Oréal v Bellure raised questions about how close a look-alike may lawfully get to the branded original.

The facts

The case concerned look-alike, smell-alike perfumes made and sold by Bellure and the other defendants (together, "Bellure"), which were imitations of famous perfumes sold by L’Oréal and its fellow claimants (together, "L’Oréal"). These were sold using lists that compared the Bellure imitation to the "real thing" and in some cases copied packaging of the claimants’ perfumes that were protected by trade mark registrations.

Bellure’s perfumes were cheap replicas that were marketed on the basis that they smelt like and/or looked like the L’Oréal products. However, even though their bottles and packaging deliberately mirrored these well-known perfumes, they were sold through distribution channels where L’Oréal's products were not sold (principally railway stations, discount stores and through internet websites) instead of the prestige outlets that L’Oréal commonly uses. Comparison lists that made a direct comparison between L’Oréal's famous perfumes and the smell-alike versions were used so that Bellure’s customers, none of whom thought that they were buying a L’Oréal product, knew what the Bellure imitation was supposed to resemble.
L’Oréal sued Bellure for passing off and for trade mark infringement:
- in respect of Bellure's use of L’Oréal marks on comparison lists that identified the Bellure replica of a L’Oréal product (section 10(1) of the Act\(^{11}\)); and
- in relation to the use made by Bellure of certain L’Oréal bottles and packaging (sections 10(2)\(^{12}\) and 10(3)).

The first instance judge\(^ {13}\) held that:
- use of the L’Oréal marks on the comparison lists infringed section 10(1);
- on the facts, there was no confusion, and hence no infringement of section 10(2) and no passing off; but nevertheless
- in the first case of its kind, use of look-alike packaging and bottles took unfair advantage of L’Oréal's trade marks - which had a reputation - contrary to section 10(3).

Despite ruling that there was no confusion, the judge held that Bellure's use of the look-alike packaging created an economic link which took unfair advantage of L’Oréal's business. Whilst merely taking a "free ride" by making the respective products similar would not in itself be enough to establish liability, it was clear to the judge that Bellure had deliberately traded off L’Oréal's advertising and the reputation of its premium brands, thus enabling Bellure to charge more for its products.

Both parties appealed and in October 2007, Lord Justice Jacob, giving the judgment of the Court of Appeal,\(^ {14}\) referred a number of questions to the ECJ:

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(1) \text{ Where a trader, in an advertisement for his own goods or services, uses a registered trade mark owned by a competitor for the purpose of comparing the characteristics (and in particular the smell) of goods marketed by him with the characteristics (and in particular the smell) of the goods marketed by the competitor under that mark in such a way that it does not cause confusion or otherwise jeopardise the essential function of the trade mark as an indication of origin, does his use fall within either (a) or (b) of Article 5(1) of Directive 89/104?}
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(2) \text{ Where a trader in the course of trade uses (particularly in a comparison list) a well-known registered trade mark for the purpose of indicating a characteristic of his own product (particularly its smell) in such a way that:}
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(a) \text{ it does not cause any likelihood of confusion of any sort; and}
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(b) \text{ it does not affect the sale of the products under the well-known registered mark; and}
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\(^{11}\) Equivalent to Article 5(1)(a) TMD - use of a sign identical to an earlier registered mark on identical goods amounts to infringement.

\(^{12}\) Equivalent to Article 5(1)(b) TMD - Use of a sign identical or similar to an earlier registered mark on similar goods that thereby may lead to confusion on the part of the public, including a likelihood of association amounts to infringement.

\(^{13}\) [2006] EWHC 2355 (Ch).

\(^{14}\) L’Oreal SA v Bellure NV [2007] EWCA Civ 936.
(c) it does not jeopardise the essential function of the registered trade mark as a guarantee of origin and does not harm the reputation of that mark, whether by tarnishment of its image or dilution or in any other way; and

(d) it plays a significant role in the promotion of the trader’s product, does that use fall within Article 5(1)(a) of Directive 89/104?

(3) In the context of Article 3a[1](g) of [Directive 84/450], what is the meaning of “take unfair advantage of” and in particular, where a trader in a comparison list compares his product with a product under a well-known trade mark, does he thereby take unfair advantage of the reputation of the well-known mark?

(4) In the context of Article 3a[1](h) of the said directive, what is the meaning of “present[ing] goods or services as imitations or replicas” and in particular does this expression cover the case where, without in any way causing confusion or deception, a party merely truthfully says that his product has a major characteristic (smell) like that of a well-known product which is protected by a trade mark?

(5) Where a trader uses a sign which is similar to a registered trade mark which has a reputation, and that sign is not confusingly similar to the trade mark, in such a way that:

(a) the essential function of the registered trade mark of providing a guarantee of origin is not impaired or put at risk;
(b) there is no tarnishing or blurring of the registered trade mark or its reputation or any risk of either of these;
(c) the trade mark owner’s sales are not impaired; and
(d) the trade mark owner is not deprived of any of the reward for promotion, maintenance or enhancement of his trade mark;
(e) but the trader gets a commercial advantage from the use of his sign by reason of its similarity to the registered mark,

does that use amount to the taking of an “unfair advantage” of the reputation of the registered mark within the meaning of Article 5(2) of [Directive 89/104]?"

Since the first four questions all concerned the use made of L'Oréal's marks in the comparison lists, the ECJ decided to answer the fifth question first. This dealt with the meaning of "unfair advantage" in Article 5(2) TMD where the essential function of a trade mark is not at risk, there is no risk of tarnishing or blurring, the trade mark owner's sales are unaffected and the trade mark owner is not deprived of any of the rewards of owning his trade mark, but the comparative trader obtains a commercial advantage by making the comparison.

The ECJ said that the essence of the “unfair advantage” ground is that it covers cases where by reason of a transfer of the image of the mark or the characteristics which it projects to the goods identified by the identical or similar sign, there is clear exploitation
by riding on the coat-tails of the mark with a reputation. An advantage taken by a third party of the distinctive character or repute of an earlier mark could be unfair even if it is not also detrimental to that character or repute.

To determine whether use of a sign takes unfair advantage of the distinctive character or the repute of a mark, it is necessary to undertake a global assessment taking into account all facts relevant to the circumstances of the cases including:

- the strength of the mark’s reputation;
- the degree of distinctive character of the mark;
- the degree of similarity between marks at issue; and
- the degree of proximity of the goods and services concerned.

As regards the strength of the reputation and the degree of distinctive character of the mark, the stronger the mark’s distinctive character and reputation are, the easier it will be to accept that detriment has been caused to it. Moreover, the more immediately and strongly the mark is brought to mind by the sign, the greater the likelihood that the current or future use of the sign takes unfair advantage of the distinctive character or the repute of the mark or is detrimental to them.

The fact that there is a likelihood of dilution or tarnishing of the mark may also be taken into account, although the ECJ clearly anticipated that it would not always be present. Given the need to demonstrate an actual or potential shift in consumers’ economic behaviour,15 it may be difficult to prove.

The first instance judge had already found that a link had been made through the packaging and bottles adopted by Bellure and that this link conferred a commercial advantage. Indeed, it had been expressly intended to do so as the packaging and bottles were deliberately adopted for that express purpose.

The ECJ went on to say that where a third party attempts to ride on the coat-tails of a mark so that it can benefit (without paying for the privilege or making any efforts on its own account) from the marketing effort expended by the owner of the mark, the advantage gained by that third party must be regarded as unfair.

The ECJ then went on to consider the first and second questions together as they both dealt with the non-confusing use of an earlier mark in comparison lists and, more generally, whether descriptive use fell within Arts 5(1)(a) and (b) TMD.

The first question had already been dealt with in part in the O2 case but, as the ECJ did not fully answer the question that was put to it, the English Court of Appeal re-submitted the question. The ECJ confirmed that the use of an identical mark in a comparison list fell within Article 5(1) TMD but that a trade mark owner could only object to such use if it caused some detriment to the functions of the trade mark. This included not only the essential function (i.e. the guarantee of origin of the goods or services bearing the mark) but also its other functions, in particular that of guarantee of quality, and those of communication, investment or advertising.

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It therefore followed that certain descriptive use must be excluded from the ambit of Article 5(1) TMD but that as the use made in the comparison lists was for the purposes of advertising, and not merely for description, it was trade mark use within the meaning of the article and could be prevented provided that it did not comply with the conditions in Article 3a(1) CAD as a lawful comparative advertisement. Such use could also be prevented under Article 5(2) TMD if it amounted to taking an unfair advantage.

The third and fourth questions centred on the meaning of two of the conditions set out in Article 3a(1) CAD. Article 3a(1)(g) - meaning of "unfair advantage of reputation of a trade mark" in the context of comparison lists and Article 3a(1)(h) - meaning of "imitations or replicas" in Article 3a(h) CAD where the use made is truthful and descriptive.

The purpose of the conditions set out in Article 3a(1) CAD is to achieve a balance between the different interests that may be affected by comparative advertising. It aims to stimulate competition to consumers’ advantage, whilst preventing its distortion through practices unfair to competitors. The intention is to allow competitors to describe objectively the differences between the goods and services offered without infringing the trade mark owner’s exclusive rights.

The ECJ thought that it was clear from a reading of Article 3a(1)(h) CAD that it covered all imitations and replicas, and not just counterfeit ones. Moreover, the requirements that the comparative advertisement should not be misleading or confusing were separate conditions. The prohibition against imitations or replicas was intended to cover not only express references, but also advertisements that implicitly created this impression. Although the comparison lists referred to an essential characteristic of the imitative Bellure perfumes, this did not matter. The ECJ concluded that a comparison list that presents a product as an imitation of another must, by its very nature, take unfair advantage of the reputation of the earlier mark.

The decision is noteworthy as it is the first time that the ECJ has expressly held that a mark has not only the essential function of designating origin which is worthy of protection, but that its marketing and promotional functions (in other words, its brand image) can also be protected. This is the first decision that acknowledges that the investment made in a brand, often the major intangible asset of a company, can be protected.

The case will now return to the English Court of Appeal so that the ruling can be applied to the facts in the case. English courts have notoriously been reluctant to accept that a mark’s brand image is worthy of protection and for this reason, the judgment will be keenly anticipated.

It is worth noting that the ECJ decision in the L’Oreal case follows the approach it took in Aceites del Sur-Coosur v. Koipe, where the ECJ considered whether there was a likelihood of confusion between two composite figurative marks for olive oil.

16 Article 3a(1)(d), (e), (g) and (h) respectively provide that the use of the mark must not create a likelihood of confusion, it must not discredit or denigrate the mark, it must not take unfair advantage of the reputation of the mark and it must not present goods or services as imitations or replicas of goods or services bearing the mark.

17 Case C-498/07, 3 September 2009.
Both marks showed a girl with dark hair wearing peasant style of clothing sitting in an olive grove; although both the poses and words were different, the ECJ nevertheless found that there was a likelihood of confusion.

Aceites del Sur-Coosur (“ASC”) had sought to register LA ESPANOLA mark and Koipe opposed on the basis of its CARBONELL mark. Koipe lost at OHIM on the basis that the respective marks produced “different overall impressions”; from a phonetic point of view they had no similar elements, and the conceptual link relating to the agricultural nature and origin of the goods was weak, which excluded any likelihood of confusion.

In a decision that is encouraging for brand owners, the court held that the marks were visually and conceptually similar because the dominant element of both marks was the figurative one. There was a likelihood of confusion so the opposition should succeed. Particular attention was paid by the CFI to how olive oil is arranged in Spanish supermarkets on shelves and that consumers were guided by the visual impact of the mark, but generally did not pay much attention to the names of the brands.

This case demonstrates that where there are two marks which have strong figurative elements and weak word elements, a look-alike could be found to be confusingly similar. Nevertheless, it is questionable whether an English court would follow it without strong evidence proving customer confusion.

These are exciting times for brand owners who will be hoping for a strong and positive judgment that will give further clarity to the law. There are at least two other cases in the pipeline on similar issues that are due to come out before then, so 2010 promises to be as interesting a year for brands and trade marks as 2009.

**Mars Incorporated**

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