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Red soles, gas bottles and ethereal market places: competition, context and trade mark law

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Cases: L'Oreal SA v eBay International AG (C-324/09) [2011] E.T.M.R. 52 (ECJ (Grand Chamber))

Viking Gas A/S v Kosan Gas A/S (formerly BP Gas A/S) (C-46/10) [2011] E.T.M.R. 58 (ECJ (1st Chamber))

Christian Louboutin SA v Yves Saint Laurent America Inc Unreported August 10, 2011 (D (US))

*E.I.P.R. 1 Introduction

The relationship between intellectual property and competition has always attracted the attention of policy makers: trade mark law formally internalises competition considerations by setting distinctiveness thresholds, raising functionality barriers or adopting first sale exhaustion principles. However, the principles of competition also influence courts' rationalisation of basic trade mark concepts. Three recent cases show that the interests of the marketplace, the competitors of trade mark proprietors and consumers in their role as market players contextualise the enforcement of trade mark rights.

One, *Christian Louboutin v Yves Saint Laurent*¹ (*Louboutin*), comes from the US District Court of New York and the other two, *Viking Gas A/S v Kosan Gas A/S*² (*Viking Gas*) and *L'Oréal SA v eBay International AG*³ (*eBay*), from the Court of Justice of the European Union (CJEU). The factual contexts are totally distinct: *Louboutin* considered the functionality of the colour red in the high end fashion industry; *Viking Gas* the functionality of an inexpensive gas bottle from an enforcement perspective; and *eBay* an online emporium in relation to luxury products. All three, however, share a common element: the court does not apply trade mark law provisions in a vacuum; to the contrary it embeds them against external competition and market considerations.

***Louboutin, Viking Gas, and eBay* --the factual context**

In *Louboutin*, the French designer Christian Louboutin filed a suit against Yves Saint Laurent (YSL) for trade mark infringement, alleging that YSL's Cruise 2011 collection included four shoe models with red soles, a trade mark that Louboutin had registered back in 2008. Louboutin's registration was for a "lacquered red sole", for "women's high fashion designer footwear". The "colour red" was claimed as a feature of the mark.

In *Viking Gas*, the CJEU ruled on a trade mark infringement case relating to gas bottles, following a referral from the Danish courts. Kosan produces and sells bottled gas in "composite" (lightweight) bottles and refills them for a charge. The shape of the bottles is protected as a three-dimensional trade mark that departs from the norm, albeit its validity was not directly an issue. Viking, a competitor who sold, but did not itself produce, gas, offered a refilling service for the Kosan bottles. Viking attached to the bottles an adhesive label bearing its name and the filling station number without the Kosan marks being removed or covered. Kosan claimed that a competitor was not free to reuse Kosan's protected packaging for its own product.

eBay was a reference from the English High Court concerning the liability of eBay:

(1) for the sale on its auction platform, of various counterfeit, tester and de-packaged L'Oréal products; and

(2) for the advertising of such sales through keyword advertising. L'Oréal operates a closed selective distribution network and its authorised distributors are prevented from supplying other distributors. eBay operates an electronic marketplace where a wide variety of goods are sold.

***E.I.P.R. 2** L'Oréal brought an action complaining that eBay was jointly liable with certain individuals who were infringing its trade marks. L'Oréal also claimed that, by purchasing keywords corresponding to L'Oréal trade marks, eBay attracted customers who bought, in addition to legitimate goods, branded goods that were counterfeit, unpackaged or from non-EEA sources and which therefore infringed L'Oréal's trade mark rights.

The infringement v competition context

All three cases related to trade mark infringement claims. In each case, however, the courts looked at them from a broader perspective, taking into account standards and practices, consumer interests and competition concerns in each particular industry.

In *Louboutin*, the court appeared to revive the doctrine of aesthetic functionality and confirmed that aesthetic appeal of a product can be functional, as consumers often value products for their looks. By stating that he chose the colour red for his outsoles to give his shoe styles "energy" and because it was "engaging" and "sexy", Louboutin himself had acknowledged significant, non trade mark functions for his outsoles. In addition, it was found that the red outsole affected the cost of the shoe, making it more, rather than less--a common ground in utilitarian functionality cases--expensive.

Because the use of red outsoles serves non trade mark functions other than as a source identifier, and affects the cost and quality of the shoe, the court concluded that awarding a single player in the designer shoe market a monopoly on the colour red would significantly hinder competition.⁴

The court held that, because in the fashion industry colour serves ornamental and aesthetic functions vital to robust competition, Louboutin was unlikely to be able to prove that its red outsole brand was entitled to trade mark protection, even if it had gained enough public recognition in the market to have acquired secondary meaning.

Similarly, in *Viking Gas*, the CJEU held that to allow the owner of a trade mark right constituted by the shape of the composite bottle to prevent those bottles from being refilled would unduly reduce competition on the downstream market for the refilling of gas bottles. This would even create the risk of that market being closed off if Kosan were to succeed in imposing its bottle because of its specific technical characteristics.

In *eBay*, when considering the unboxed luxury products, the court focused on the overall presentation of luxury items and concluded that L'Oréal could prohibit the sale of those products where packaging has been removed or replaced, where the consequence is that essential information is missing and/or the removal of the packaging has damaged the image of the product and, hence, the trade mark's reputation. The CJEU also found that L'Oréal's rights had not been exhausted by the provision of samples and testers provided free to distributors and resellers. Therefore L'Oréal could object to the sale of those samples and testers on eBay.

Considering eBay's overall way of doing business by buying keywords corresponding to L'Oréal's trade marks, the court found that, when an operator has played an active role, such as providing assistance to optimise some offers for sale, it cannot rely on the "hosting" defence under art.14 of the E-Commerce Directive and seek exemption from liability. In order to fall within the defence, the service provider has to be neutral in the sense that it merely carries out a technical and automatic processing of data provided by its customers.

In relation to the Adwords, the court found at [94] that L'Oréal could sue eBay where the keyword is used in a way which did not enable:

"[R]easonably well informed and reasonably observant Internet users, or enables them only with difficulty, to ascertain whether the goods concerned originate from the proprietor of the trade mark or from an undertaking economically linked to that proprietor or, on the contrary, originate from a third party."

This is the same test as the court set out in the *Google* cases, arguably setting a more difficult to ascertain test for infringement in an ethereal rather than bricks and mortar environment.⁵

Specific product market

When considering trade mark issues, courts also focus on the specific product market.

In *Louboutin*, the court considered the colour red in the context of the high end fashion industry. The main question in the proceedings was whether there was something unique about the fashion world that militated against extending trade mark protection to a single colour, although such registrations had been upheld in other industries. Therefore the question of whether the use of a single colour in the fashion industry could constitute a valid mark raised an additional one: whether a single colour may be "functional" in that context. Had it not been for the fashion industry, the colour red could have been afforded protection, in particular on the basis of its secondary meaning.

Similarly, in *Viking Gas*, the court focused on the industry standards for refilling gas bottles, regardless of their shape, and considered competition in the downstream market. Thus, although it had obtained a **E.I.P.R. 3* trade mark registration for its gas bottle, Kosan was unable to enforce its trade mark rights in practice, as a result of the industry standards and competition issues that would arise by such enforcement. Note also here the holistic reference the court made to the interest of the proprietor, its licensee, its competitors and its consumers.

In *eBay*, the court considered the case in the luxury products market sector and found that in some cases the removal of packaging would have a detrimental effect on a product's prestigious image, while in other cases the opposite would be true.

Conclusion

Admittedly, a comparison of three diverse, in terms of jurisdiction and product market, judgments should not lead to grand assertions on the interrelationship between trade marks and competition.

Still, the analogies are both telling and fascinating. First, trade mark law is not applied in a vacuum: factual, market and competition contexts affect not only the internalised interpretation of legal provisions and doctrines but also their application when the reality of the marketplace which is external to trade mark law is taken into account.

Secondly, the role of the consumer is becoming increasingly more nuanced either as the test case for establishing infringement or as a market player whose interests are taken more directly into account.

And, thirdly, obtaining a trade mark right has become ostensibly an easier exercise following objective and comparable for all criteria. Enforcing it, though, is a different game; specific for each product market, competition concerns introduce a much more complex and subjective spectre for trade mark proprietors.

E.I.P.R. 2012, 34(1), 1-3

1.

Christian Louboutin SA v Yves Saint Laurent America, Inc et al. Case No.11-CIV-2381-VM (April 7, 2011, S.D.N.Y.)

2.

Viking Gas A/S v Kosan Gas A/S, formerly BP Gas A/S (C-46/10) July 14, 2011 CJEU.

3.

L'Oréal SA v eBay International AG (C-324/09) July 12, 2011 CJEU.

[4.](#)

Note the analogies with *Bang & Olufsen A/S v Office for Harmonisation in the Internal Market (Trade Marks and Designs)* (T-508/08) October 6, 2011 General Court (Eighth Chamber), where the court, refusing trade mark protection to a distinctive pencil-shaped get-up for speakers because of the value it attributes to the speakers, states at [74]: "Indeed, the shape for which registration was sought reveals a very specific design and the applicant itself admits ... that that design is an essential element of its branding and increases the appeal of the product at issue, that is to say, its value."

[5.](#)

Note that in *Google France, Google, Inc v Louis Vuitton Malletier* (C-236/08), *Viaticum SA, Luteciel Sàrl* (C-237/08), *Centre national de recherche en relations humaines (CNRRH) Sàrl, Pierre-Alexis Thonet, Bruno Raboin, Tiger Sàrl* (C-238/08) [2011] Bus. L.R. 1, it was accepted at [122] that "if the use of keywords can contribute to trade mark infringements, how far would Google be from having to block those words from its search engine? It is no exaggeration to say that, if Google were to be placed under such an unrestricted obligation, the nature of the internet and search engines as we know it would change".

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