

I N S I D E T H E M I N D S

Navigating Fashion Law

*Leading Lawyers on Protecting Client Brands
and Following Industry Trends*

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IP Protection for the Fashion Industry

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Introduction

Fashion law addresses nearly all legal fields, because the industry comprises a range of activities from conception of a product to design to manufacture, as well as marketing and selling. For those of us in the intellectual property (IP) space, fashion law most commonly involves the procurement of IP rights—including trademarks, copyrights, and patents—and the global licensing and subsequent enforcement of those rights. Enforcement of IP rights in fashion also includes education and training of the public and relevant law enforcement, such as customs authorities, about fakes and infringement.

As brands have increased their media presence over time, consumers have become more brand-conscious and more aware of purchasing “name” brand merchandise. Over the last ten to twenty years, the rise of the Internet changed marketing and distribution of products. The introduction of social media created a new world for advertising and distribution, and has played a role in the rapid rising and falling in popularity of many brands. Social media has also helped foster co-branding and endorsement opportunities between fashion brands and celebrities or other social media personalities, which has the benefit of allowing all parties to draw from larger public audiences. These new developments in advertising and media strategy have led to the emergence of new legal intricacies that have helped develop “fashion law” into its own niche practice area.

The Questions

As a fashion law practitioner, you could represent an independent designer, a large holding company, or an entity licensing merchandise. The work involved for each type of client is similar—procurement, recordation, licensing, and enforcement of IP rights.

When we first meet with a new client, we try to understand the biggest problems that client is facing and where the client wants to be in three or six months. The running line that most attorneys use is best: “What is it that keeps you up at night?”

Often, lawyers and executives at small and start-up companies will tell us that everything is keeping them up at night. For example, is an original

design protected? Does a unique fastener require a patent? Can you trademark a fabric design? Do I need a trademark for my label? What can I license, and how? We aim to streamline the questions and come up with a comprehensive IP procurement and enforcement strategy that makes sense for the particular client's needs.

In fashion, it is often useful to have what is referred to as a “house brand.” For example, a company called NYC Co. may run several lines of different types or styles of products, which might be called “NYC Co. Nighttime” or “NYC Co. Fitness,” or “NYC Co. Blue.” Having a primary house brand, NYC Co., which can be carried across sub-brands and labels, helps strengthen the overarching brand and encourages consistency over the years and through the development of new lines. That consistency helps save on costs of trademark filing fees, since the one trademark on the product will always denote the source. If designers can develop the brand architecture in that way, it is helpful.

The Answers

In general, the strongest type of intellectual property protection in fashion is through trademarks, which provide an indicator of the source or origin of a product through a brand name, logo, slogan, or other indicator. Clients seeking to do business globally may not understand the differences in how trademark laws apply in various countries. The biggest dividing line when working internationally applies to whether the country in which trademark rights are sought is what is called a “use” jurisdiction, or a “first to file” jurisdiction. For example, in the United States, which is a “use” country, trademark rights are acquired through the use in commerce of a source identifier on a good. For example, if your brand is ACME and you start to manufacture and sell clothing with an ACME label, you would start to gain trademark rights in the word ACME based on your use of that mark. However, in Brazil, for example, if the ACME company wanted to gain trademark rights, it would simply file a trademark application, whether or not that name was actually being used on a label for merchandise. In “first to file” countries like Brazil, the first person to file the trademark application gets the trademark rights, regardless of their actual use of the trademark in the marketplace. When deciding whether to obtain trademark registrations in a given jurisdiction, it is important to consider whether you

will be manufacturing in, distributing in, or shipping to that jurisdiction. If you are not, it may not be necessary to procure any IP rights there.

Knowing the relevant intellectual property laws in various jurisdictions makes a big difference in advising clients regarding whether and when to file trademark applications. Our practice is global, and we have resources in 175 countries around the world, so we can ask questions and obtain very quick responses. It is important for brand owners to confirm with local attorneys how to best comply with relevant fashion laws in their countries.

Intellectual Property Protection for Fashion

Intellectual property laws protect fashion brands and certain elements of fashion designs themselves. The industry has recently seen an increasing use of design patents and trade dress to enforce rights. These types of IP vehicles protect the “look” of a particular product or of certain novel design elements of such a product. An example of a design patent might be an ornamental sculptural element, such as an intricate bow, affixed to a product such as a shoe. An example of trade dress might be a distinctive color scheme that appears on a particular brand’s products and creates an association between that color scheme and the brand. The growing focus on these two areas of intellectual property protection may be happening because the other avenues, such as utility patents, trademarks, and copyrights, are not always sufficient to prevent copycats and infringement, due to limitations with respect to what those laws can protect. For instance, copyright protection does not extend to so-called “useful articles” that serve a function.¹ Because clothing is functional, most fashion designs for apparel have generally not been protectable by copyright (although patterns appearing on fabric can be copyrightable).

However, a recent copyright infringement case concerning the design of a cheerleader uniform has been appealed to the Supreme Court, which, if it decides to hear the case, may redefine whether fashion designs are in fact copyrightable. The case, *Varsity Brands, Inc., et al. v. Star Athletica LLC* (Case No. 14-5237),² was heard by the US Court of Appeals for the Sixth Circuit earlier this year, which held that the graphic design elements on

¹ 17 U.S.C.A. §§ 101, 113.

² *Varsity Brands, Inc. v. Star Athletica, LLC*, 799 F.3d 468 (6th Cir. 2015).

Varsity Brands' cheerleading uniforms, such as stripes and chevrons, were protectable by copyright. This decision was a major shake-up in traditional thinking on this issue. The Sixth Circuit found that the graphic designs of the uniforms could be conceptually separated from the uniforms' utilitarian function of covering the body. There is much attention from the fashion law community focusing on this case, and it will be interesting to see whether and how the Supreme Court handles it. This is just one example of brand owners working hard to enforce what they believe to be their original designs. There is a continuing effort by fashion designers and brands to come up with creative ways to protect their designs and to deter and punish counterfeiters.

When brand owners become aware of counterfeit goods that are seized by customs or other law enforcement, they typically demand that the counterfeits be destroyed. Destruction satisfies the concern about counterfeit products being worn or utilized by members of the public, which may impact the brand's image or the way it is perceived in the marketplace. For example, brand owners typically do not want to allow counterfeit versions of their products to enter the marketplace because of a likelihood that the public will perceive a shoddy knockoff to be authentic and mistakenly believe that the brand is of low quality. However, in New York, under the recently passed bill S2020A, courts may now order that any seized counterfeit apparel be donated to a nonprofit instead of being destroyed. The New York bill has imposed several safeguards to address brand owner concerns. For one, the brand owner has an opportunity to object to the donation of counterfeit goods, and the donation must be to a nonprofit corporation that has an established history of providing goods to indigent individuals. A judge must approve the organization to receive the donation, and the organization may not sell the goods. Additionally, the law requires that the tags on the counterfeit goods be removed, or that the goods be otherwise marked, altered, or stamped, so as to prevent consumer confusion and to prevent resale. At the moment, only clothing is subject to this regulation, which does not extend to include other products such as watches, sunglasses, handbags, and consumer goods.

In general, the United States is at the forefront of stringent IP laws for the fashion industry, although Congress is still considering whether and how to protect original fashion designs. The European Union, on the other hand,

does have a regime in place to protect original designs, which is heavily relied upon by fashion designers obtaining intellectual property rights abroad. Some EU member countries, such as France and Italy, offer additional national protections over fashion designs as well. Many jurisdictions throughout the world take brands' intellectual property rights very seriously, and have created strong enforcement initiatives by customs and other regulatory agencies. China is a jurisdiction that is trying to improve its intellectual property system, and recently made many revisions to its trademark law, but it still has more work to do.

I always joke ruefully that counterfeiting and infringement is a growth industry. For fashion brand owners and people in the licensing space, it is a constant problem. We come up with tools all the time to address it, but it does not seem to be dying down.

Factors Contributing to Counterfeiting

The economy has a big impact on global fashion law trends. First and foremost, fashion law is impacted by the continued outsourcing of the manufacturing and labor force, largely to China. Intellectual property and design rights are treated differently in China than they are in the United States and many other parts of the world. As long as fashion and manufacturing continue to be outsourced to areas where there is less respect for intellectual property rights, there are going to be cheap copies and people taking advantage of the situation. If anything, the issue of Chinese knockoffs is growing.

The “made in China” movement, the global condition of virtually everything being manufactured in China, has resulted in a huge export of counterfeit merchandise. The fashion industry is perhaps hit the hardest by this. Knockoff artists can easily make the merchandise in China with cheap labor and sell it online to consumers, who are often duped into purchasing fake items. The ease with which Chinese counterfeiters can both manufacture products and distribute them through the online marketplace is a major problem in the fashion industry.

There are, however, many mechanisms that brand owners and the fashion industry have to fight back against counterfeit manufacturers, exporters,

and online sellers, and brand owners are utilizing them. Both the United States and the European Union have good tools to combat these issues. In particular, in places like the United Kingdom, Internet service providers are now required to block access to websites that sell counterfeit goods when requested by a brand owner, as a result of litigation brought by luxury goods company Richemont last year.³ Similarly, in the United States, the Digital Millennium Copyright Act requires that websites and Internet service providers remove infringing content when notified of an infringement by a rights holder.⁴ Unfortunately, counterfeit vendors operating online are like cockroaches; you shut one down and it pops up again somewhere else or simply makes a new website.

An important anti-counterfeiting case still being litigated is *Gucci America, Inc., et al. v. Li, et al.*, Case No. 1:10-cv-04974 (S.D.N.Y. 2015),⁵ in which Gucci and other brand owners sued a number of online marketplaces based in China for counterfeiting. In the course of the lawsuit, the plaintiffs learned that the defendants' proceeds from their counterfeiting activities were being wired to the Bank of China, and the plaintiffs therefore sought an injunction on the Bank of China to freeze these assets, and issued subpoenas requesting the bank to provide information about the defendants' accounts. The Bank of China appealed, and was successful before the Second Circuit, but on remand, the District Court found once again in favor of the plaintiffs, and it appears at present that the Bank of China is now going to have to comply with those subpoenas.

As the case continues to be litigated, other issues regarding bank secrecy and privacy may come up, but from a pure enforcement perspective of trying to pursue known counterfeiters, obtain their information, and learn how much money they are holding from these sales in their merchant accounts with overseas banks, it appears that the *Gucci* case will be a win for brand owners and for the fashion industry. This case may make it more difficult for other infringers to try to hide assets overseas, though it may also encourage overseas banks to take more careful steps than the Bank of China did to avoid being subject to any jurisdiction in the United States.

³ *Cartier International AG, et al. v. British Sky Broadcasting Ltd., et al.*, 2014 EWHC 3354 (Ch).

⁴ 17 U.S.C.A. § 512.

⁵ *Gucci America, Inc. v. Li*, 2015 WL 7758872 (S.D. N.Y. 2015).

Preventing Counterfeiting

To best prevent counterfeiting, the first thing a client should think about is where, as a practical matter, the product is going to travel, from the manufacturing stage to the distribution stage. The brand owner should then file basic applications to register the appropriate trademarks in those countries, because pirates will jump on the product in those countries where they are manufactured and distributed. If that is too monumental a task because the product is going to physically enter one hundred countries, then the client should consult an attorney who practices in international trademark law and can help develop a defensive filing strategy to block potential pirates and register the brand from a protective standpoint.

Next, the client will want to keep an eye on what is going on with the brand online. The client can try searching online for things such as “cheap ACME,” “replica ACME,” or “fake ACME,” and there are many companies offering software and services that make this kind of online monitoring easy and automatic. With the current ubiquity of e-commerce, there has developed an active and robust online marketplace for knockoff products. This is a sign that the brand is popular, but brand owners do not typically see it that way when they are getting ripped off.

Filing an IP Claim

In the United States, a lawyer would consider the client’s product versus the infringing product and make an assessment regarding the possibility of consumer confusion. There is a test and a well-developed standard for consumer confusion, which considers a number of factors including:

- (1) the strength of the trademark;
- (2) the similarity of the marks;
- (3) the relatedness of the products in the marketplace;
- (4) the likelihood that the senior user will “bridge the gap,” i.e., will develop a related product in the same market as the alleged infringer;
- (5) evidence of actual consumer confusion;
- (6) evidence of bad faith by the alleged infringer;
- (7) the respective quality and cost of the products; and
- (8) the sophistication of the consumers in the relevant market.

Consumer surveys or other evidence may be necessary to support a claim of confusion, but if enough of the other elements are satisfied to demonstrate a *likelihood* of confusion, it is not necessary to prove actual confusion. Before you file a trademark claim, however, you may need to consider why or how confusion could occur, though this may vary, depending on the country where the alleged infringement occurs.

Evidence of consumer confusion to support an infringement claim can be found in many ways, such as conducting a short online survey to determine whether the consuming public is confused by the activities of an infringer. Do your research before you file a claim for infringement.

Use of alternative dispute resolution as opposed to going to court is not unique to IP or fashion. In the United States, ADR is always an option, and we have used ADR methods such as mediations and arbitrations effectively over the past year. It is a compromise, but it is often much better than the uncertainties of going to trial or court.

The Global Perspective

From a global perspective, licensing and branding in the fashion industry can be very complex. A brand may have a certain reputation in one country and a different one in another country. Additionally, a brand owner may have the IP rights in only one country, but its licensee may have a business model seeking to sell in twenty different countries. In a case like this, the brand owner needs to ascertain whether it has a brand to license in those twenty countries in the first place. Next, if the brand owner does not actually have a trademark registration in certain countries, it needs to figure out whether it is acceptable to authorize a licensee to exploit that brand in that country, even without a registration. In many jurisdictions, licensees may not sell goods under a brand that is not registered with that country's intellectual property agency. In such a case, the licensee and the brand owner have very little right to enforce the trademarks against any third party infringers, and the brand owner has no right to enforce the terms of its license or to be paid by its licensee. However, there are certain countries where it is acceptable for a brand owner to authorize use of its trademarks by its licensee even when there is no registration. The differences in these regulations between countries can be tricky when the brand owner or

licensee wants to do business in multiple jurisdictions, which, in this global age, many companies want to pursue.

Often, global license agreements include audit provisions for the licensor to ensure that it is receiving the proper royalty payments from the licensee, and to make sure that the licensee is using the trademarks in the appropriate ways on its merchandise. Sometimes brands operating in other jurisdictions use licensing agents as a middleman to monitor, receive, and book the payments and the merchandise being sold. These agents will often be used, for example, where there is a long-standing global arrangement and the brand owner cannot be everywhere at all times. There are many ways to enforce licensing agreements, but much depends on the licensee and the licensor. These parties are usually in touch frequently, and maintaining a working relationship between the licensee and licensor is often a matter of keeping lines of communication open.

Future of Fashion Law

The fame and iconic status of a brand is going to continue to be the key driver around which everything else flows. But even as a brand grows, its owner must always be cognizant of maintaining protection over it and launching new brands. As a brand grows, its trademark portfolio will and should grow.

Fashion law is going to continue to grow in its own space within the legal field, because it involves issues with respect to the IP, licensing, and enforcement that arise with great frequency. It helps to be in communication with a lot of different players in the space to swap ideas and exchange thoughts on how things are evolving.

Additionally, as technology continues to develop and the world continues to shrink, fashion lawyers need to remain cognizant of legal developments in related areas. For instance, the rise of social media in fashion advertising, and the consequent shift in consumers increasingly shopping online, implicates consumers' privacy rights. By entering into digital transactions, consumers provide their personal identifiable information to various websites. To protect consumers' privacy, a multitude of new rules and regulations has emerged regarding how that privacy information is

maintained. Companies operating e-commerce websites have to follow specific rules relating to use of this type of information. Another area that has affected fashion is the sustainability movement. People making claims about green manufacturing processes or the use of sustainable fabric are being heavily scrutinized by the Federal Trade Commission (FTC), which regulates the claims that brands may make about the qualities of their garments. Fashion brands and companies making these claims—such as claims to a certain degree of sustainability, or claims regarding what eco-friendly materials the fabrics are made from—have to be careful that they have science to back up any claim being made. Over the past year, the issue of false advertising claims in fashion has been on the FTC’s radar. Doubtless other regulatory developments will continue to emerge as the fashion industry makes its way through the twenty-first century.

Advice for Fashion Law Attorneys

To grow your fashion law practice, continue to be active in and knowledgeable about organizations that serve the fashion industry, such as the International Trademark Association (INTA) and the International Anti-Counterfeiting Coalition (IACC). Even at the more granular level, stay involved with trade associations or groups covering discrete areas of the fashion industry, such as the American Apparel and Footwear Association (AFAA) and the Council of Fashion Designers of America (CFDA). Attend continuing education classes. Get out and mingle and talk to people. As you practice in this area, you will find that many people are experiencing the same struggles. Speak to other practitioners and hear about how they are addressing current trends and problems.

Conclusion

The fashion industry has grown and changed dramatically over time, and promises to continue changing as consumers evolve their shopping and sharing habits. While globalization and new technologies have been promising and profitable for the fashion industry, however, it has also presented new challenges in counterfeiting and global licensing. As a result, fashion lawyers must be well-versed in intellectual property laws—especially trademark—to adequately advise their clients. Fashion lawyers should also

have a diverse and reliable international network to properly advise upon international licensing and enforcement issues that arise.

The state of the law with respect to the fashion industry is also rapidly changing, with new case law and new legislation constantly being developed in the United States and abroad. Fashion lawyers must remain up to date on these shifts in the legal landscape and should also become well-versed in related areas, such as advertising and privacy regulations.

Key Takeaways

- When you first meet with a client, try to learn about the biggest problems that client is facing and where that client wants to be in three or six months. Keep in mind that the biggest intellectual property concerns in the fashion industry involve licensing and anti-counterfeiting enforcement.
- A “house brand” should be developed, because it will carry across labels over time and through new product lines, and it will save in filing costs.
- The first thing a client should think about when protecting a product from piracy is where the product is going to be manufactured and distributed. The client should obtain intellectual property rights and licensing rights in those places, and initiate a brand enforcement strategy in line with the local law.
- To grow in your fashion law practice, stay involved with fashion industry organizations, trade associations, and other practitioners.

Marcella Ballard is a partner at Venable LLP. Ms. Ballard’s practice covers a wide range of intellectual property matters, including brand protection, trademark, copyright, trade secret, privacy rights, licensing, unfair competition, contract and business tort claims. She has represented clients in the USPTO, TTAB, and in bench and jury trials as well as in arbitration hearings throughout the United States and in the United Kingdom. She counsels several famous brands in their trademark matters and brand management functions on a global basis.

Ms. Ballard’s client base spans a range of industries that includes fashion, media, consumer products, entertainment, financial services, insurance, pharmaceutical, health

care, and IT. Her exposure to so many industries positions her to effectively meet her clients' needs, no matter their business focus.

Ms. Ballard is a veteran in prosecuting and defending motions for emergency injunctive relief, and has acted as lead counsel in anti-counterfeiting actions around the country in which ex parte seizure and TRO relief was obtained. Her experience includes successfully managing the simultaneous seizure of counterfeited goods across eleven locations in a single day—an effort that involved coordinating with a large group of law enforcement, customs officials and federal marshals.

Ms. Ballard previously served as an assistant district attorney in New York, Bronx County where she tried over fifteen jury trials to conclusion and had a near perfect record of obtaining convictions for the state. Ms. Ballard obtained her undergraduate degree at Ohio State University on a full athletic scholarship and was an All American swimmer and academic All American scholar-athlete amassing fourteen Big Ten titles while at OSU.

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