# LAW À LA MODE

Issue 10 – Summer 2013

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DLA PIPER

**Fashion, Retail and Design Group**

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**Front cover:** Made in Italy limited edition shawl "Red Ghost" from the series "Happy ghosts". © Chiara Cola 2013. www.chiaracola.com. Image Courtesy Chiara Cola Digital Art

Image courtesy Chiara Cola Digital Art

# Editorial

It is two years since our Italian team last had the pleasure of editing *Law à la Mode*. Italy remains at the heart of the fashion and design world and is more welcoming than ever to new talented young designers who wish to join its hub of creativity and innovation.

Putting our Italian fashion and design foot forward, we couldn't miss the opportunity to give you an insight into the latest decision in the Italian trademark infringement and unfair competition law suit between Guccio Gucci S.p.A. and Guess? Inc (**page 8**).

Spring 2013 also saw several members of the DLA Piper global Fashion, Retail and Design group gathering together and sharing their knowledge during two events: one in Dallas at the 125th INTA Annual Meeting (**page 16**) and one in Milan in May (**page 17**).

An increasingly popular method for fashion businesses seeking to raise financing for their ideas or products is crowd-sourced funding. We explore this in our article on **page 14**.

The collapse of a factory in Bangladesh has been heralded as South Asia's worst industrial disaster to date. From both the Asian and Western European perspectives, we look at the impact of the tragedy on retailers (**page 10**).

Our employment professionals from Germany and the UK give their insight into two topical employment law issues (**pages 6 and 18**).

We are also excited to bring you a Turkish perspective on the increasing demand for three-dimensional marks (**page 12**), an analysis of the structuring options available to an overseas business when deciding to enter the UK market (**page 13**) and look at the commercial agency rules in the UAE and the other Gulf Co-operation Council countries (**page 4**).

We do hope you enjoy this Summer edition of *Law à la Mode*. If you have any comments, please get in touch with the Fashion, Retail and Design group via our email address: fashion@dlapiper.com.

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# COMMERCIAL AGENCY IN THE GULF CO-OPERATION COUNCIL COUNTRIES

# A THREAT TO YOUR BRAND?

by **Katie Withers** (Dubai)

As economies in the Middle East continue to grow, so does the demand for famous brands, particularly in the fashion sector. However, fashion brand owners wishing to license their trademarks within the Gulf Co-operation Council (GCC) countries – whether through a franchise or a traditional licensing arrangement – should be aware of potential exposure under the commercial agency rules.

This article focuses on the commercial agency rules in force in the UAE. Similar rules apply in the other GCC countries (Bahrain, Oman, the Kingdom of Saudi Arabia, Kuwait and Qatar). Although each has a separate legal system and different rules, the policy behind their approach to commercial agency is the same, namely to confer advantages on (mostly local) agents against their principals who, for the most part, are licensing in to the GCC. Similarly, all require agency agreements to be registered, confer benefits on nationals only and require compensation to be paid upon termination.

## THE UAE LEGAL LANDSCAPE

Before looking at UAE commercial agency, it is important to understand the key features of the legal system. First, UAE laws are drafted and published in Arabic. English translations of common legislation are available, but the Arabic version will prevail. The UAE is also a civil law jurisdiction, meaning that laws are codified. No doctrine of precedent applies, meaning that courts are not bound to follow the decisions of higher courts, and, for the most part, those decisions are not publicly available.

## UAE AGENCY LAW

Federal law No 18 of 1981 (the Agency Law) provides for registration of commercial agency agreements at the Ministry of Economy. To qualify, the agreement must involve "the representation of a principal by an agent for the distribution, sale, offer or provision of a commodity or service inside the UAE." This is broad enough to capture many commercial arrangements, and not merely 'agencies' in the traditional sense, including sale or distribution of goods under a trademark, or a franchisee appointment.

To be capable of registration, the agent being appointed must be either a UAE national or a company 100 percent owned by Emiratis. This reflects the policy decision to create favourable conditions for local businesses wishing to license in brands from outside the GCC. While the criteria for qualification ***as an agent*** is extremely narrow, the agreements which may benefit from registration are deliberately broad.

The Agency Law applies only to ***exclusive*** appointments and permits the principal to appoint a different agent in each emirate. Once an agreement is registered, the agent will be entitled to certain benefits that cannot be excluded.

## ADVANTAGES OF REGISTRATION FOR THE AGENT

The Agency Law confers the following enhanced rights on agents: presumption of territorial exclusivity; right to compensation on termination (even in fixed term agreements); right to commission on all sales in the territory (even those not made by the agent); right to block the import of branded products covered by the registered agency where the agent is not the consignee.

The UAE courts have exclusive jurisdiction to hear disputes arising out of a registered agreement, and these courts will apply UAE law. This is the case irrespective of the choice of law and jurisdiction clauses negotiated between the parties.

Most licensors wish to prevent registration. Although carrying out agency activities without registering could expose the licensor to a fine, in most cases application of the Agency Law presents a higher risk.

## MINIMISING RISK

The key point to note about the Agency Law is that it may not be possible to de-risk a proposed commercial arrangement entirely. The measures that may be taken by licensors comprise either practical steps to prevent registration under the Agency Law, or alternatively, drafting to minimise risk.

***Practical steps:*** examples include refusing to notarise or translate the agreement into Arabic. Specifically, an agent may register an agreement without the licensor's express consent. However, the agreement appointing the agent must be signed, notarised and translated into Arabic before being submitted to the Ministry. The absence of one of these steps is likely to prevent registration.

The disadvantage for the licensor is that the agreement cannot be relied upon in the UAE court unless and until it is notarised (and, if necessary, legalised) and translated. Even if the agreement selects a foreign law and jurisdiction, difficulties with local enforcement may arise.

***Drafting to minimise risk:*** the most effective way to avoid registration under the Agency Law is to make the agreement non-exclusive. However, in many contexts (such as franchising) a non-exclusive agreement will be commercially unacceptable. If so, the best option is usually to address the possibility of registration in the agreement itself. For example, by requiring the licensee to confirm that registration is not required, and to agree to de-register and to pay a financial penalty in the event of breach.

While clauses such as this may dissuade a licensee from registering, once again, the risk arises in relation to enforcement. Specifically, the UAE courts are likely to treat any agreement which seeks to avoid the Agency Law as null and void. Even where a foreign judgment or award is obtained, there is a risk that it will not be enforced locally to the extent inconsistent with local law.

***The future of commercial agency?*** Risk-averse licensors are looking for ever more creative ways to avoid the potentially onerous effects of the Agency Law, but successful enforcement is the biggest challenge. It seems unlikely that any GCC country will liberalise its agency laws, or reduce the benefits available to registered agents, unilaterally. Accordingly, the Agency Law seems likely to remain in its current form for the foreseeable future, and licensors should be aware of their potential exposure in the event of registration.

# PROTECTING CONFIDENTIAL INFORMATION IN THE FASHION INDUSTRY

by **Gurpreet Duhra** (Sheffield)

All successful retail and fashion businesses are aware of the value of their confidential business information and the importance of protecting it. They hold very close their ideas for new designs, details of upcoming collaborations with high profile celebrities, details of their customer databases and new ideas for promotions and competitions. Misuse of confidential information in the fashion industry in particular can expose businesses to significant financial and reputational risks.

These risks are more acute than ever in the social media age, where the ability for employees to share information outside of the reach of their employer on social networking platforms is greater than it has ever been. Facebook now has 11.1 billion users per month;135,000 new users sign up to Twitter every day. With user bases expanding rapidly, and new forms of social media constantly emerging, it is easy to see why protecting confidential business information in the social media age is a major concern for retail and fashion employers.

**Which information is protected?** Employers need to be aware of the fact that information will only be automatically protected from employee misuse during and after employment if it constitutes a "trade secret". In the UK, a trade secret is information which has an apparent high degree of confidentiality and could cause real damage to the business if misused (similar rules apply in many other jurisdictions). Within the retail sector, *much of the information that employers regards as confidential may not amount to a trade secret.*

Confidential information that an employee may gain knowledge of during their employment which does not constitute a trade secret (such as customer databases) is known in the UK as "other confidential information". It qualifies as such when the employer has told the employee that the information is confidential, or it must be obvious that the information is confidential. As well as customer and supplier lists, "other confidential information" could also include pricing information and business plans.

Employers can feel more secure about the protection of confidential information by employees during their employment because of the implied duty of good faith and fidelity owed to an employer. This includes the duty to respect the confidentiality of an employer's commercial and business information. However, any information which, for instance, forms part of the employee's skill and knowledge or is in the public domain is not confidential information and is not capable of protection.


**Essential steps for employers for safeguarding confidential information:** clearly, given the risks involved, employers will be keen to guard against the dissemination of confidential information on social media sites and there are several steps employers may take to mitigate against the risks.

**Employment contracts:** employers should ensure that employment contracts contain relevant and up-to-date examples of the types of confidential information particular employees may be privy to during the course of their employment and explain that they are under a duty not to disclose or disseminate such information. The list of such information should include, as a minimum, ideas for new designs, details of upcoming collaborations with high-profile celebrities, details of customer databases and new ideas for promotions and competitions. There may be other types of confidential information specific to a business. The more comprehensive and specific the list the employer sets out, the better the protection it will afford them. Contracts should be tailored as closely as possible to the information that individual employees are likely to have access to, in order to maximise the enforceability of these provisions. There are also other provisions that employers should consider inserting into contracts, such as garden leave (in which an employee who is leaving a job remains on the payroll but serves out the notice period at home) and restrictive covenants, which may indirectly protect confidential information in circumstances where employees are departing.

**Social media policy:** having a robust social media policy is an important way of showing that employers have taken steps to (a) alert employees to the type of information that they should be keeping confidential and (b) outline what the employer's standards and expectations are regarding disclosure of information on a social media site.

**Raising awareness and training:** however, simply creating a policy is not enough. Employers must ensure that their social media policy is regularly reviewed and that employees receive regular training to refresh and update their understanding of the social media policy. This is particularly important given how fast-moving the world of social media is.

**Monitoring:** employers are often reluctant to monitor employee activity on social media, because this is perceived as a potential infringement of an employee's rights to private and family life. However, the lines between what activity is personal and what activity an employer has a legitimate interest in are often blurry, particularly when employees use social media on devices provided by their employer or during normal working time. With appropriate safeguards and policies in place, monitoring can be an effective tool to combat potential misuse of confidential information. Having the ability to monitor and making employees aware of this can also act as a significant deterrent for employees who may otherwise share confidential information through social media activity.

# GUCCI LOSES ITS ITALIAN BATTLE AGAINST GUESS

by **Sara Balice** and **Stefania Baldazzi** (Milan)

In 2009, Gucci sued Guess before the Southern District of New York for infringement of its trade marks and trade dress as well as for unfair competition. But while the New York case closed in 2012 in favor of Gucci, the Milan Court of First Instance has recently reached a completely different decision: it has dismissed all of Gucci's claims concerning trademark infringement.

The Italian legal battle started in 2009, when the world famous Italian fashion house Guccio Gucci S.p.A. sued the US company Guess? Inc. and its Italian branch Guess Italia S.r.l. (and others) before the Milan Court of First Instance, claiming that their use of the signs "Guess", "G" italic, "G pattern", "serial squared G", "green-red-green stripe" and others infringed some of Gucci's Italian and Community trademarks. Gucci also claimed unfair competition pursuant to Article 2598 no. 1, 2 and 3 of the Italian civil code, including parasitic competition.

In particular, the Milan court held that:

- With regard to the question of whether the use of the "Guess" logo (italics with underline) infringed Gucci's trademarks, the names "Guess" and "Gucci" had to be regarded as totally different from an aural perspective and by overall impression. The court also considered the font used in the logos, in particular the appearance of the letter "G". These aspects of the logos . the court said, are of primary importance in consumers' perceptions. The court further held that, because both trademarks have a reputation, any likelihood of confusion had to be excluded.

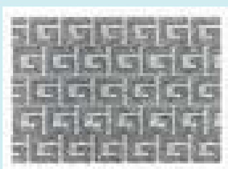

- Regarding the italicized "G" logo, the court took into account that trademarks consisting of a single letter have weak distinctiveness and that they are protected in their specific graphics. The court found that differences in the Gucci and Guess "G" graphics were sufficient to exclude any likelihood of confusion.

- The court ruled that the "GUCCI" and "GUESS" logos (in capital and golden letters) also had to be regarded as different by overall impression. Also, Gucci couldn't claim any exclusive right on the capital and golden letters.

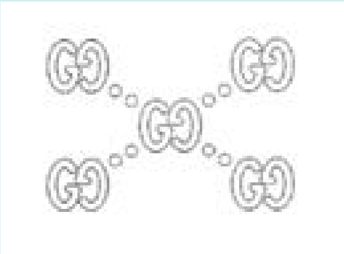

- Gucci's trademark, consisting of two interlocking "Gs" and four small squares in the corners, was never copied by Guess.

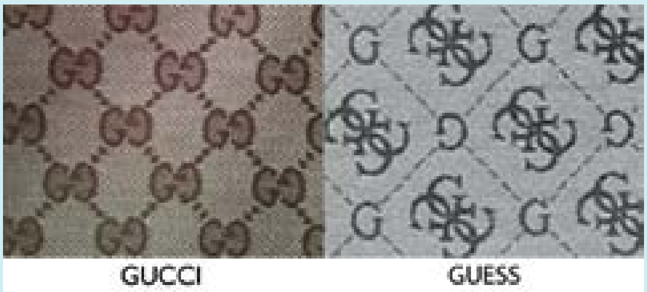
- As for the sole squared "G", invoked as a *de facto* trademark by Gucci, the court, sharing the New York judges' position, held that it could not be considered as distinctive of Gucci. Moreover, the court found, this mark had to be regarded as devoid of any distinctive character, since squared G signs are very common in the fashion market.

- By contrast, the court considered the "serial squared G" sign to be a distinctive and valid trademark. However, the court held that Guess did not infringe this trademark because, in a such a crowded market where "G" is used in different shapes, Guess's pattern could not be confused with Gucci's since they were significantly different.



- Similarly, the court held that Gucci's trademark consisting of a serial repetition of five pairs of Gs was valid but not infringed by Guess, because of the differences between the two company's patterns and their different overall impression on consumers.



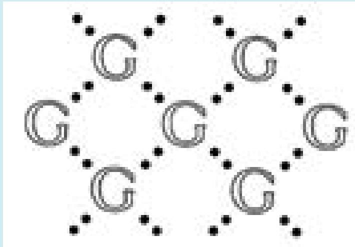



- The court also dismissed Gucci's claim concerning the infringement of the "green-red-green stripe", since Guess did not sell the challenged products in Italy. Also, the Italian judge stated that Gucci had no exclusive right to these alternating colored stripes and could not prevent Guess from using a different combination of colored stripes, such as "brown-red-brown".

In addition, the Court declared that three of Gucci's trademarks were invalid on absolute grounds of non-registrability or, alternatively, loss of distinctive character, namely:

- "G with dots": Italian trademark registration no. 1057601 and International trademark registration no. 940491 designating the EC.

- "G with dots serially repeated": Italian trademark registration no. 1057600 and International trademark registration no. 940490 designating the EC.



- "Flora related" trademark (which Gucci created for Grace Kelly):

Finally, the Italian court rejected all of Gucci's unfair competition claims, stating that Guess's stylistic choices cannot be considered to have been inspired by nor consistent with those of Gucci. It said that each company has maintained its *"peculiar characterizations"*. Furthermore, the court dismissed requests for damage compensation, as well as for destruction of the alleged counterfeit products.

Gucci has already appealed the decision.

The battle between Gucci and Guess is a global battle. Gucci won in the US, but lost in Italy. US judges, in fact, while noting the differences between the signs at issue, as the Milan court did, have considered their similarities as prevailing (e.g. the letter G and the diamond formation with dots or dashes in the repeating Gs pattern).

We are yet to see how the companies will fair in parallel lawsuits that have been filed by Gucci in Paris and Nanjing.

# TRAGEDY IN ASIA

## REFLECTIONS FROM THE SHOP TO THE SEWING MACHINE

by **Richard Wageman** (Beijing) and **Rebecca Kay** (London)

In April, the world watched in horror as the nine-story Rana Plaza building in the suburbs of Bangladesh's capital Dhaka collapsed, killing more than 1,100. Investigations into the incident have since revealed that one day earlier local officials had declared the structure unsafe. The fated Dhaka building included a shopping centre as well as five garment factories, whose customers included retail giants such as Primark.

This article looks at the implications of the Asian tragedy, both at a local level and for the international retail community.

### LOCAL IMPACT – LEGISLATIVE ADVANCES

The Rana Plaza collapse was not an isolated incident in Bangladesh: in November 2012, 112 workers in Ashulia died as a fire swept through the Tazreen Fashion factory. But the April 2013 incident was the worst industrial accident in South Asia in nearly 30 years and left the Bangladeshi government with no choice but to respond. Various arrests have been made, including the owner of the site and the individual factory owners. The number of factory inspections has increased, and the government has pledged to compensate victims. In May, the government announced a plan to raise the minimum wage for garment workers, and just a day later, the Cabinet agreed to allow garment workers to form trade unions without prior permission from factory owners.

However, while these are important advances for the country's 4 million garment workers, many remain doubtful about their practical impact. Skeptics fear that the changes are motivated more by fear that international retailers will move production elsewhere than solidarity with the workers: according to the Bangladeshi Garment and Industrial Workers Federation, more than 10 percent of the country's 350 lawmakers have ownership stakes in garment factories. Moreover, a large percentage of the compensation paid to victims and their families so far has come not from the Bangladeshi government but from Primark.

## REGIONAL IMPACT – CHINA INCREASES COMMITMENT TO WORKER SAFETY

Just weeks after the disaster in Dhaka, in June, around 120 people were killed in a fire at the Jilin Baoyuanfeng factory in Jilin Province, China. While this factory operated in a different sector (it was a poultry processing plant), the underlying issues were similarly grave: reports note that exit routes were illegally locked to prevent workers from leaving the premises for breaks.

As in Bangladesh, the Chinese government responded swiftly. On June 6, 2013, President Xi Jinping, commented that development must not come at the cost of human lives and that safety in production factories must be ensured. This instruction was subsequently echoed and carried out by the State Council, in the form of a major production safety check planned for June to late September 2013 on the nation's "concentrated organizations".

On June 12, 2013, the Supreme People's Court issued a further notice reinforcing the Chinese high officials' commitment to ensure worker safety in production facilities. The *Notice on Strengthening the Judgment Work on Criminal Cases Relating to Production Safety Endangering* instructs the lower courts to follow the spirits exhibited by Xi in judging crimes relating to production safety – that those who have committed such crimes must be severely punished. The Notice instructs that those cases relating to violation of worker safety regulations already on trial be processed in a timely manner, with the relevant law strictly enforced. It also instructs that the Circular provisions be strictly enforced. Among the provisions in the Circular are requirements to strictly punish and heavily penalize officials who are under a duty to report safety concerns but either choose not to or neglect to.

## THE GLOBAL VIEW – INTERNATIONAL RETAILERS REACT

In a world where consumer awareness of corporate social responsibility is rising, retailers cannot underestimate the PR importance of being perceived to have a social conscience. Indeed, what sets the recent Asian disasters apart from their predecessors is the shift in approaches by global retailers to their ethics and sourcing strategies.

Alan Duncan, the UK minister for international development, called for retailers that source garments in Bangladesh to assume responsibility for the clothes they sell "from the shop to the sewing machine". This call to arms has already been met by more than 50 retail players, with companies such as H&M, Inditex, Abercrombie & Fitch, New Look, Marks & Spencer and Benetton all signing up to the Accord on Fire and Building Safety in Bangladesh. Fronted by the IndustriALL Global Union, the code will bind each signatory for five years, requiring them to both ensure their suppliers meet minimum fire and building safety standards, and to underwrite the costs of safety upgrades.

Other retailers have elected to take a more self-regulatory independent approach to their sourcing policies. Walmart recently released a list of more than 200 factories which it has black-listed for having serious safety or employment issues. A spokesperson for the company states: "We think the safety plan that we've put in place already meets or exceeds the [Accord] proposal and is going to get results more quickly… The point of the list is to get more accountability and transparency into our supply chain."

Whichever approach is taken, retailers clearly must demonstrate that they understand their ethical, social and geographical footprint. Yet a PR campaign on its own is insufficient: actions speak louder than words. Until disasters like Rana Plaza and Jilin Baoyuanfeng become a relic of the distant past, all businesses must remain vigilant about their end-to-end supply chain.

# Three-dimensional marks in the fashion industry – The Turkish courts lay down tests

by Gökhan Gökçe and Hatice Ekici Tağa (Istanbul)

With its unique location bridging Europe and Asia, young population, large tourism industry and well-established legal and administrative system, Turkey is becoming an attractive country for foreign direct investment. Moreover, its tripling of income per capita in the last decade has resulted in a significant rise in the purchasing power of consumers, rapidly making it a popular option for expanding enterprises, particularly in the retail and fashion industry.

At the same time, it is clear that rights holders in Turkey must form brand protection strategies which keep infringers at bay. How can the scope of trademark protection be expanded and diversified? One answer is through the use of three-dimensional marks.

As a consequence of the increasing demand for three-dimensional marks, Turkish courts have started to render decisions around their use, serving as guidance for authorities. In particular, the Turkish Court of Appeals has begun to lay down distinctiveness tests for three-dimensional marks, which consider whether the shape or design in question is sufficiently distinctive to distinguish the product in the eyes of consumers.

In a recent decision regarding the shape of perfume bottles, the Court of Appeal discussed three elements of distinctiveness in three-dimensional marks: (i) the shape must possess an original form differentiating it from the ones on the market; (ii) the nature of the goods should not define the form of the mark; and (iii) the shape in question should not be created in order to achieve a technical result.

Though three-dimensional mark applications are not yet common in Turkey, it is likely that we will see an increased number of applications from high-end manufacturers for registration of their products' shapes and designs as 3D marks.

# INTERNATIONAL EXPANSION INTO THE UK BY SETTING UP AN ENGLISH PRIVATE LIMITED COMPANY

by **Laura Campbell** and **Caroline Grange-Fielder** (London)

In recent years, many international retailers such as Hollister, Uniqlo, and J Crew have moved into the UK market. They are attracted by both the spending power of UK consumers and by the manner in which the UK can act as a gateway to the rest of Europe and beyond.

When deciding to enter the UK market, an overseas business has several structuring options available to it, including:

- using a franchise model in order to start building a UK presence
- appointing an agent or distributor within the UK for its existing overseas business
- forming a joint venture with a company already incorporated within the UK;
- acquiring an existing UK business
- starting its own operations in the UK, in the form of a branch or a company.

This article considers the implications of the last of these options, namely setting up a company in the UK.

## WHAT IS THE ADVANTAGE OF SETTING UP A PRIVATE LIMITED COMPANY?

While starting its own operations may seem like a more rigid approach for a business than some of the others listed above, advantages include:

- complete ownership and control from day one
- the fact that under English law, a company is treated as a separate legal entity. This means that the liabilities and obligations of the business belong to the company and cannot, save in very limited circumstances, be passed on to the directors and shareholders. This effectively allows an overseas company to ring-fence its operations in the UK which can be particularly attractive when entering a new market, and
- the process of setting up a company is inexpensive and can generally be completed within 24 to 48 hours.

## ARE THERE ANY ON-GOING LEGAL RESPONSIBILITIES?

There are certain on-going legal responsibilities in relation to running an English company, including:

- certain fiduciary duties owed by the directors to the company
- keeping various statutory registers relating to specific information regarding the company and minutes of all shareholder and directors meetings and
- preparing an annual return, keeping accounting records available for inspection and making certain filings with the Registrar of Companies.

## OTHER CONSIDERATIONS

Many other legal factors need to be considered when expanding into the UK, among them employment and real estate laws, IP, insurance and tax.

In conclusion though, there is a wide variety of legal forms available for an international retailer to adopt, and the choice made should not, in practice, hinder the speed at which it may start trading in the UK or the flexibility of its business plan going forward.

by **Priti Bansel** and **Gareth Stokes** (Birmingham)

# STANDING OUT FROM THE CROWD

The flamboyant world of fashion and conservative world of finance have never been easy bedfellows. However, for fashion startups, crowd-sourced funding may provide access to capital from people who can better appreciate the designer's true vision.

## A RARE OPPORTUNITY

Crowd-sourced funding (i.e. collective fundraising, usually from an online community) is an increasingly popular method for businesses seeking money to finance a new business idea or a product – having been used for anything from a wind-farm to a new movie. The concept has already gathered a string of high profile success stories in the US and is rapidly gaining profile in the UK, Australia and elsewhere.

Given that high fashion has sometimes prized designer goods as much because of their rarity as any intrinsic aesthetic evaluation, the idea of applying a crowd-funded model to an industry which runs on limited editions and bespoke couture might at first seem unworkable.

However, while the very biggest names may deliberately restrict supply to add brand cachet, for everyone else, more sales mean more profits. For a new designer with a good set of designs and a desire to find a customer base, crowd-sourced funding provides an ideal platform to advertise products and designs to millions of potential online investors.

The idea is simple: it is easier to persuade 10,000 people to give you £100 each than it is to find one person willing to invest £1 million. Because these participants have a smaller sum at risk, they can more easily be persuaded that they don't need control in exchange for their funding. All that is needed

is a single place where projects can be advertised and through which funders can pledge funds – and this need has been filled by crowd-funding aggregator web sites.

While some crowd-sourced funding aggregators, such as seedrs.com, rely on projects granting funders a small share of equity in exchange for funding, others, such as kickstarter.com, remove the equity link altogether. Kickstarter instead relies on projects offering "rewards" to those pledging funds, with different levels of pledge getting different levels of reward. The type of reward depends on the project: for a movie project, pledges of over £20 might entitle the funder to a DVD copy of the finished movie; or for a project to develop a new type of games console, pledges of over £200 might similarly act as a pre-order for the device. This non-equity model does slightly increase the risk that funders will never see the value of their pledge, since they have no control or stake in the project company, but it has the distinct advantage of avoiding any concerns with the heavily regulated world of equity investment – making for a far more agile system.

In general, crowd-sourced funding aggregators (whether equity or non-equity) will allow a project a period of time to advertise on its site for funding (maybe 30 days) and require the project to set a funding goal. Only where that goal is met within the funding window will funders be charged their pledged sums. Otherwise if the goal is not met, generally no funder will be charged.

For a fashion project, the attraction of a Kickstarter project is clear. The business can advertise its designs and seek pledges as garment pre-orders. If the project reaches its funding goal, it provides the designer with a full order book so that it can go to manufacturing without worrying about over-ordering. There is a risk that advertising your designs before volume manufacturing commences could lead to the designs being copied more quickly, but the very time-and-date specific nature of the Kickstarter project page means it can then provide evidence if any subsequent claim for infringement has to be brought.

There have been fashion successes on Kickstarter already. For example, the "10 year hoodie" project, to design a hooded top that would last at least 10 years, has been funded to over US$1 million – some 2,000 percent of the requested value. Other live projects include everything from formal menswear made from technical fabrics to casual jewellery.

What is interesting is that, while there are certainly projects that would match expectations about what a crowd-funded fashion project might mean – such as ladies-wear collections from recent fashion school graduates – a surprising number of the projects are about more than simply producing clothes that look good. This might include pushing particular political or ethical buttons, or applying new techniques and technical solutions.

The 10 year hoodie project is a good example, since that project is intended as much as a political statement about the quality of garments and built-in obsolescence (both in terms of garment manufacturing quality that will rip or fray easily and fashion changes) as it is about the simple look of the item. That is not to say the item has not been designed with visual appeal in mind, but that its raison d'être is about more than that.

It is this aspect of the projects that is most interesting. Large fashion buyers already have a plethora of sources of inspiration at the many fashion shows that take place throughout the year. However, consumers buy on the basis of more than visual appeal alone. It is these additional purchase variables – whether related to garment quality, ethical choices such as fair trade, or the technical capability of fabrics – that crowd-funded projects are addressing.

# INTA FASHION RETAIL AND DESIGN GROUP EVENT


## May 2013 – Dallas

by **Ruth Hoy** (London)

The Annual Meeting of the International Trademark Association (INTA) is the biggest gathering of trade mark professionals in the world, and this year was no exception; in May 2013, more than 9,000 trademark owners and trademark and branding professionals gathered in Dallas.

A highlight of the conference for the members of the DLA Piper Fashion, Retail and Design group was our annual fashion event, which this year was a breakfast on the 47th floor of the Tower Club in Dallas. We were joined by our clients, contacts and friends from Deckers, Abercrombie & Fitch, GAP, Richemont, Timberland and Limitedbrands Inc. (owners of Victoria's Secret and La Senza), among others, to enjoy the early morning sunshine and views across the city.

Members of the group gave an insight into the key issues facing businesses in the sector in their jurisdictions.

- **Tamar Duvdevani (New York)** gave an account of the recent decision in *Juicy Couture Inc -v- Bella International Limited* (2013) and its consequences for fashion businesses tackling online counterfeiting on websites hosted outside of the US, but accessible in the US. While the Southern District of New York injuncted defendants selling infringing items of fashion apparel in the United States, it declined to apply the Lanham Act extraterritorially to stop the defendants from using their Hong Kong website to continue selling the same apparel to the rest of the world.
- **Stefan Dittmer (Hamburg)** gave an update on the European rules which prevent the seizure of goods in transit through the EU (*Philips/Nokia* decision), including an update on – a recent attempt in the German Federal Supreme Court to get around these rules, and the European Commission's proposed changes to the CTM Regulation, which would enable trade mark owners to block counterfeit goods in transit.
- **Antonio Murta (Brazil)** and **Gokhan Gokce (Turkey)** discussed the challenges facing IP owners entering into these developing markets.
- **Ed Chatterton (Hong Kong)** talked us through some of the key proposed changes to the Chinese Trademark Law. The most significant of these for Western brand owners will be the introduction of multi-class filings in China; the proposed abolition of the ability of a brand owner to appeal to the TRAB following the failure of an opposition at first stage (which will mean their only option is to bring a cancellation action following grant); and changes to rules on oppositions (including that they may only be brought by "interested" parties).
- **Melinda Upton (Sydney)** finished the session with a quick update on the Intellectual Property Amendments Act (Raising the Bar) Act 2012, which will affect trade mark oppositions and the customs process in Australia.

Our annual fashion event is a firm fixture in the INTA calendar. Please let us know if you would like to join us next year.


# REAL ESTATE IN THE FASHION INDUSTRY

## May 2013 – Milan

by **Giulia Zappaterra** and **Giulio Coraggio** (Milan)

In May 2013, DLA Piper partners from many jurisdictions gathered with clients and colleagues at the Four Seasons Hotel in Milan, the Italian fashion capital, to share advice on the major regulatory issues that fashion businesses can face when expanding their retail network overseas. Our colleagues were joined by a distinguished panel of representatives from leading Italian fashion brands, who gave an insight into their own businesses' strategies, particularly in emerging economies.

Following welcomes from Giangiacomo Olivi (Co-chair of DLA Piper's Fashion Retail and Design group) and Olaf Schmidt (Head of the International Real Estate Group), Mr. Mario Boselli, Chairman of the National Chamber for Italian Fashion, kicked off the event with his take on the current export trends in the fashion industry. Mr Boselli also announced the recent agreement achieved between the National Chamber for Italian Fashion and the China Business Coalition Shopping Center Professional Committee, a nonprofit organization of the Chinese Chamber of Commerce involved in the management of national shopping centers.

The panel of DLA Piper partners (who came from Australia, Asia, Belgium and the US) answered questions on some of the legal issues faced by foreign fashion companies entering a new market. In particular, each of the panelists were asked to give a general overview of the legal requirements in their home jurisdiction and the major hurdles faced by a foreign business wanting to open a chain of retail shops. This included detail of the licenses required to operate in those countries through to the most difficult aspects of the negotiation of lease agreements to gain the best premises.

The complexities of entering the Chinese market sparked a particularly lively debate, given the plethora of legal challenges in the region. We enjoyed hearing the practical reflections of the representatives of Italian major fashion brands (Valentino, Hogan and Roberto Cavalli): while some brands seem most interested in expanding through direct, wholly-owned retail outlets (allowing them to keep control of both the distribution channels and the personnel), others have chosen a franchise approach; but the one thing they all agree on is that expansion into China is a must for their businesses.

This interesting debate was followed by cocktails in the garden of the Four Seasons Hotel, which provided us with a great opportunity to catch up with some major players of the fashion industry. Thank you to all who attended – and to those who did not have the chance, we hope to see you in October at the next fashion event in Milan, discussing digital fashion.

# TERMINATING POORLY PERFORMING **EMPLOYEES IN GERMANY**

by **Pascal R. Kremp** (Munich)

Employees in Germany enjoy strong protection against dismissal. Termination must be supported with sufficient reasons; otherwise an employee can apply to a court to enforce his or her reinstatement.

German case law has established that employees must do what they are asked to do, but only to the best of their abilities. In rare circumstances, if an employee is not able to perform his or her job (e.g. due to lack of qualification or drug addiction), then an employer can terminate the employee for so-called 'person related reasons'. Unlike a termination for conduct, no prior warning is required because the employee is seen as unable to change his or her behaviour.

The burden of proof for establishing the reasons for the termination of an employee is on the employer. Often the employer does not know whether the employee is just not able to perform the work or if the low performance is based on conduct issues – for instance, the employee is not really trying to perform the work to the best of his or her abilities. When considering termination, therefore, it is usually advisable to issue a prior warning.

In order to be in a good position before a court, an employer in Germany concerned about a problem employee should ensure it gives the employee clear working instructions, ideally in writing, with specific deadlines. For retail employees, it is advisable to have a witness present when giving instructions and also for notes to be taken. If sales employees miss sales targets, this does usually not justify a warning or termination. It is therefore better to give sales employees specific instructions, e.g. to make a certain number of customer visits or calls per week. If they do not follow these instructions this may justify a warning or termination.

Performance issues should be addressed with the employee without undue delay and concerns over such issues should be documented. It is key to lawful termination that the employer is able to demonstrate in detail what the employee did wrong and when, and how the employer sought to remedy the situation. If the employee has been under-performing, the employer should consider issuing a written warning to the employee. The warning must set out in detail what the employee did wrong and how he or she should handle such issues in the future; the warning should state that the employer may terminate the employee in the event of a similar future breach of the employment agreement. If the warning does not meet all these requirements, it is null and void. If, however, a valid warning is given and the employee subsequently commits a similar mistake, this may justify termination of employment.

Since termination should be the last resort, the employer must also consider providing additional training to an under-performing employee or taking other measures to avoid future performance issues.

# BUSINESS ROUND-UP

## THE NEWS AND THE VIEWS

### WHAT DOES INTERFLORA'S SWEET-SMELLING VICTORY IN ITS UK ADWORDS CASE MEAN FOR THE FASHION SECTOR?

by Satnam Sahota and Azin Kafai (Birmingham), and John Wilks (London)

The English High Court has held that the purchase by retailer Marks & Spencer of a Google AdWord for "Interflora" constitutes trade mark infringement. But what does this ruling mean for brand owners and retailers?

M&S's advertising exploits meant that Internet users who searched for "Interflora" would be presented with an advertisement linked to M&S's online flower delivery service. The High Court, applying the CJEU ruling in this and earlier AdWords cases, concluded that a reasonably well informed and observant internet user would *not* be able to establish whether the advertised goods originated from the Interflora network. Factors which led to this conclusion included the lack of any disclaimer of association with Interflora's network in M&S's adverts and the nature of Interflora's business, comprising a large network of independent retailers.

This decision clearly turned on its facts and does not indicate that all use of third parties' brands as keywords can be prevented. Indeed, Interflora's business model is relatively rare.

However, there will be situations in the fashion sector where a brand owner is able to prevent the use of its trade mark. The key question will always be whether the Internet user can determine without difficulty whether the ad relates to the owner of the mark which is used as an AdWord. Retailers which are known to stock a range of third party brands and who use a third party brand as an AdWord are more likely to mislead the internet user than competing brand owners. Retailers looking to use third party brands as AdWords should consider either taking a licence, or including an appropriate disclaimer in the ad.

The issue is certainly not settled, and with an appeal likely, M&S look set to remain a thorn in the side of Interflora for a while yet.

### BEWARE OF THE HUE OF YOUR SOLES!

by Giulio Coraggio (Milan)

The fashion addict may be able to recognize a pair of shoes by their sole, but not everyone is aware that the red soles of Louboutin's shoes are a registered trademark. A company that will certainly remember for a while is Jourdan, which has been sued by Louboutin before the federal court in Manhattan for trademark infringement due to their red soled women's shoes. Laboutin is claiming US$2 million in damages for each mark that is infringed.

This case follows Louboutin's success in the US Court of Appeals in Manhattan in September 2012 in its dispute with Yves Saint Laurent America Inc. In that case, the court upheld Louboutin's exclusivity right on women's shoes with red soles when the remainder of the shoe is a different color.

### "TIFFANY" ENGAGEMENT RING SETTING FACES GENERICNESS CHALLENGE

by Tamar Duvdevani and Airina Rodrigues (New York)

In a previous issue, we reported on Gerber's battle to save its "Onesies" trademark from genericide, the process by which trademarks are diminished or even lost as a result of overuse in the marketplace. Tiffany & Co. now faces a similar battle in a New York federal lawsuit filed late last year against Costco Wholesale Corporation, alleging trademark infringement and counterfeiting claims against Costco for use of the term "Tiffany" in connection with diamond engagement rings. Costco argues that Tiffany has no legal right to exclude Costco from using " Tiffany" to indicate that a ring has a Tiffany setting, because "Tiffany" is a generic term for a pronged diamond setting. Costco asserted a counterclaim for partial cancellation of several Tiffany & Co. trademark registrations, to the extent these registrations cover a style of pronged diamond setting. Tiffany & Co. seeks summary judgment dismissing Costco's counterclaim, arguing that a mark cannot become generic until its primary significance is as a generic reference for a pronged-ring setting. This motion remains pending. The case is *Tiffany & Company, et al. v. Costco Wholesale Corporation*, No. 1:13-cv-01041 (S.D.N.Y. Feb 14, 2013).

# Calendar

Our round-up of what's on where you are…

Compiled by Stefania Baldazzi (Milan)

## JUNE

**Paris Men's and Haute Couture, Paris**
June 30 – July 5
(http://www.modeaparis.com/en/fashion-shows/Schedules/Haute-couture)

**London Menswear Fashion Week, London**
June 16 – 18

**Milano Moda Men (Summer), Milan**
June 13 – July 20
(http://www.cameramoda.it/en/fashion-show/123_MILANO_MODA_MAIN___SUMMER_13_GIUGNO_20_L/#timeline)

**Milano Moda Uomo, Milan**
June 22 – 25
(http://www.cameramoda.it/en/fashion-show/107_MILANO_MODA_UOMO___22_26_GIUGNO_2013/#timeline)

**Pitti Immagine Uomo, Florence**
June 18 – 21
(http://www.pittimmagine.com/corporate/fairs/uomo.html)

## JULY

**Berlin Fashion Week, Berlin**
July 2 – 7
(http://www.fashion-week-berlin.com/index.php?id=429)

**Hong Kong Fashion Week, Hong Kong**
July 8 – 11
(http://www.hktdc.com/fair/hkfashionweekss-en/HKTDC-Hong-Kong-Fashion-Week-for-Spring-Summer.html)

**080 Barcelona Fashion – Independent Fashion Designers Expo**
July 8 – 12
(http://www.080barcelonafashion.cat/)

**ANDAM Fashion Award 2013, Paris**
July 4
(http://andam.fr/)

**Premium (International Fashion Trade Show) Dusseldorf**
July 19 – 22
(http://www.premiumexhibitions.com/)

**Bread & Butter Summer 2013 (Tradeshow for selected brands), Berlin**
July 2 – 4
(http://www.breadandbutter.com/summer2013/de/home/)

**Kleine Fabriek, Amsterdam**
July 7 – 8
(http://www.kleinefabriek.nl/)

## AUGUST

**CIFF – Copenhagen International Fashion Fair**
August 1 – 4
(http://ciff.dk/)

**SIMM – Semana Internacional de la Moda de Madrid – Ifema**
August 29 – 31

If you have finished with this document, please pass it on to other interested parties or recycle it, thank you.

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