IP in a World of Change:

Recent Developments That May Affect IP Protection

Cristina Carvalho

21 August 2017

NAFTA Renegotiation: Potential Implications on Trademark Law

U.S. Government Objectives for Renegotiation:

- Trump administration's primary concern is promoting U.S. goods and U.S. businesses, and removing barriers to the entry of those goods into commerce.

- Many negotiation objectives geared toward uniform IP protection standards across NAFTA signatories.

- Among U.S. objectives is to "[p]revent the undermining of market access for U.S. products through the improper use of a country's system for protecting or recognizing geographical indications, including failing to ensure transparency and procedural fairness and protecting generic terms."

NAFTA Renegotiation: Potential Implications on Trademark Law

What this might mean:

- The U.S. may seek to ensure that rules for registrability of geographic marks are strict and do not allow marks that incorrectly claim U.S. origin.
- This would be in keeping with a recent trend of FTC enforcement of, and pending U.S. federal legislation regarding, "Made in U.S.A." claims.
- The U.S. may also seek to bar registration of "Made in U.S.A." or similar terms on the grounds that such terms are generic, so that parties wishing to use that term to accurately denote product origin do not risk infringement.

Administration's July 2017 Report to Congress on Trade Enforcement Priorities:

"Rigorous Enforcement of IP Rights" due to IP-related market access barriers:

- Restrictive patentability criteria in Argentina, India, and Indonesia.
- Lack of adequate protection for tests and data in China, India, Indonesia, Thailand, Russia and Saudi Arabia.
- Inadequate protection for trade secrets in China and India.
- Inadequate border enforcement against counterfeit and pirated goods.

USTR 2017 Special 301 Report

USTR will continue to prioritize enforcement in countries "where IP protection has deteriorated":

- **Priority Watch List – China** – trade secret theft, online piracy and counterfeiting, requirement for local development of IP.
- **Priority Watch List – India** – difficulty maintaining patents, insuficiente Enforcement actions and policies.
- **Priority Watch List – Indonesia** – lack of adequate IP protection and enforcement .
- **USTR Monitor – Chile and Colombia** – not delivered on IP commitments to the US; **European Union**, negative market access due to protection of geographical indications incluidng those with prior trademark rights.

“Made in USA” Claims

<u>Regulations for Claiming Goods are “Made in U.S.A.”</u>:

- The FTC’s “Made in USA” policy applies to all products advertised or sold in the U.S., unless those products are subject to country-of-origin labeling by other laws.
- Only products that are “all or virtually all” made in the U.S. (including all 50 states, the District of Columbia, and U.S. territories and possessions) may bear a “Made in USA” claim without violating FTC regulations.
- To qualify as “all or virtually all” made in the U.S., “all significant parts and processing that go into the product must be of U.S. origin.”
- This means the product should contain no, or negligible, foreign content.

“Made in USA” Claims

Recent FTC Enforcement Activity

- FTC strictly enforces the regulations applicable to “Made in USA” claims, closely scrutinizing such claims and penalizing entities that don’t comply with regulations.
- There has been an uptick in enforcement, and the FTC has shown enhanced scrutiny of “Made in U.S.A.” claims.
- In the first five months of 2017 alone, the FTC issues eleven “closing letters” to companies whose Made in American claims it had investigated.
- There is no indication the pace will lessen, especially considering the transition to the domestic-goods focused Trump administration.

“Made in USA” Claims

Pending Legislation Affecting Made in U.S.A. Claims:

- The "Reinforcing American Made Products Act of 2017,” passed by the Senate Committee on Commerce, Science, and Transportation on May 18, 2017, would allow FTC regulation of “Made in America” claims to supersede state laws relating to goods introduced, delivered for introduction, sold, advertised, or offered for sale in interstate or foreign commerce and bearing a "Made in USA“- type label.

- The bill allows enforcement of state law relating to the use of labels that are not in compliance with the FTC regulations governing "Made in America" labeling.

- California is the only state with specific legislation addressing “Made in USA Claims,” and it is unclear how the language allowing enforcement of state laws for goods not in complains with FTC regulations will interplay with California state law.

"Made in USA" Claims

Can a trademark be a "Made in U.S.A." claim?

- A "Made in U.S.A." claim can be express or implied
- The FTC does not generally consider the use of an American brand name or trademark, by itself, to constituted a claim of U.S. origin.
- This general practice applies only assuming that the brand name does not specifically denote U.S. origin (that is, the brand name is not "Made in America, Inc.").
- So a trademark that *does* imply U.S. origin may be viewed as a "Made in U.S.A." claim, and would be subject to the applicable regulations.

“Made in USA” Claims

Business Considerations:

- Entities seeking to use a trademark that may be viewed as expressly or implicitly indicating that the products with which it is associated are of U.S. origin should proceed with caution.

- If the goods upon which the mark is used would not meet the “all or virtually all” standard for U.S. content, the trademark could be subject to FTC scrutiny and enforcement actions.

Recent Supreme Court Copyright Ruling:
Star Athletica, L.L.C. v. Varsity Brands, Inc., et al, Varsity Brands Inc.

Supreme Court Holding:

"A feature incorporated into the design of a useful article is eligible for copyright protection only if the feature (1) can be perceived as a two- or three- dimensional work of art separate from the useful article, and (2) would qualify as a protectable pictorial, graphic, or sculptural work – either on its own or fixed in some other tangible medium of expression – if it were imagined separately from the useful article into which it is incorporated."

Recent Supreme Court Copyright Ruling:
Star Athletica, L.L.C. v. Varsity Brands, Inc., et al, Varsity Brands Inc.

<u>Some background on how this ruling arose:</u>

- Varsity Brands, a longtime manufacturer of cheerleading uniforms, sued Star Athletica, a 2010 entrant into the cheerleading uniform market, for use of designs nearly identical to those Varsity manufactured.

- Case hinged whether the design elements (including color combinations as well as ornamentation such as chevrons and stripes) were "conceptually separable" from the uniforms themselves and thus eligible for copyright protection.

Varsity's designs

Star Athletica's designs

Recent Supreme Court Copyright Ruling:
Star Athletica, L.L.C. v. Varsity Brands, Inc., et al, Varsity Brands Inc.

General implications of this decision:

- Clarified that applied art on clothing is protectable under U.S. copyright law.
- Rejected the historical bias against clothing as an accepted canvas for a creative work.
- Reinforces the value of copyright in applied arts, and in particular for the apparel industry.

Recent Supreme Court Copyright Ruling:
Star Athletica, L.L.C. v. Varsity Brands, Inc., et al, Varsity Brands Inc.

<u>What this means for businesses:</u>

- Brands will now be able to create applied designs with more certainty regarding which elements will be eligible for protection.

- Fashion innovators may want to expand their copyright portfolios to include registrations for the separable design elements appearing on garments, footwear and accessories.

- Owners of the copyright for applied designs may see increased opportunities for revenue from licensing these designs.

Recent Supreme Court Copyright Ruling:
Star Athletica, L.L.C. v. Varsity Brands, Inc., et al, Varsity Brands Inc.

What this means for businesses (cont'd):

- Fast fashion companies must remain vigilant against unintentional infringements in the applied art elements appearing on their products.
- Fast fashion should insure that they obtain appropriate representations and warranties from the suppliers and manufacturers of fabrics and other embellishments, and that they are fully indemnified by those entities.
- Companies may need to budget for an uptick in copyright infringement claims related to the applied art elements appearing on their products.

Recent Developments in Trademark Law
Belmora LLC v. Bayer Consumer Care AG

The decision:

The Fourth Circuit held that the plaintiff Bayer had standing to bring an unfair competition claim under Lanham Act Sections 14(3) and 43(a) for the unauthorized use of a foreign trademark – that Bayer had never used in United States commerce!

This ruling broadly implicates the issue of standing to bring claims under the Lanham Act.

Recent Developments in Trademark Law
Belmora LLC v. Bayer Consumer Care AG

<u>Some background on how this ruling arose:</u>

- Bayer had utilized the trademark "FLANAX" in Mexico since the 1970s for its naproxen sodium pain relievers, but used the trademark "ALEVE" for the same product in the U.S. It owned a trademark registration for "FLANAX" in Mexico, but not in the U.S.

- Belmora registered the mark "FLANAX" in the U.S. in connection with "orally ingestible tablets of naproxen sodium for use as an analgesic" in 2005.

Recent Developments in Trademark Law
Belmora LLC v. Bayer Consumer Care AG

Some background on how this ruling arose:

- Bayer petitioned to cancel Belmora's mark, and the TTAB granted the petition to cancel.
- The Eastern District of Virginia reversed the TTAB's cancellation decision, holding that Bayer could not have economic loss for a mark it did not use in U.S. commerce, so did not have a protectable interest in the United States.
- Bayer appealed to the Fourth Circuit, which reversed the District Court ruling.

Recent Developments in Trademark Law
Belmora LLC v. Bayer Consumer Care AG

<u>Implications of this decision</u>:

- Opens the door for foreign trademark owners to claim standing to bring suit under the Lanham Act, even where the mark they seek to enforce has not been used in U.S. commerce, so long as they are able to adequately plead that the defendant's deceptive conduct led to commercial injury.

- May lead to inconsistent rulings and cause forum shopping, inconsistent outcomes, and consumer confusion.

Recent Developments in Trademark Law
Christian Faith Fellowship Church v. adidas AG

The decision:

The Federal Circuit held that a Church's sale, on its premises, of two hats to a parishioner who lived in the neighboring state was sufficient "use in commerce" to support a use-based trademark application

Recent Developments in Trademark Law
Christian Faith Fellowship Church v. adidas AG

Some background on how this ruling arose:

- Plaintiff Christian Faith Fellowship Church owned a trademark for "Add a Zero."

- Christian Faith Fellowship Church had sold apparel bearing the mark "Add a Zero" as part of a fundraising effort, and obtained federal trademark registrations as a result of use-based trademark applications for the mark for clothing.

- In 2009, Adidas applied for a clothing trademark for ADIZERO, which was refused on the grounds of likelihood of confusion with the Church's marks.

Recent Developments in Trademark Law
Christian Faith Fellowship Church v. adidas AG

Some background on how this ruling arose:

- Adidas brought an action before the TTAB to cancel the Church's marks on, among others, the grounds of the Church's failure to use the marks in commerce before registration.
- The TTAB, after considering the Church's evidence of a cancelled check for the sale of two "ADD A ZERO"-marked hats for $38.34 to an out-of-state Wisconsin resident parishioner in February 2005 (before the Church applied for its marks), agreed with Adidas's failure-to-use argument and cancelled the Church's marks.
- The Federal Circuit reversed.

Recent Developments in Trademark Law
Christian Faith Fellowship Church v. adidas AG

Implications:

- Brings into question whether the dichotomy between interstate commerce and intrastate commerce remains useful to determine use under the Lanham Act.
- Raises question of whether "first use" and "first use in commerce" now the same, for the purposes of trademark filings.
- This ruling may also implicate what can be considered an acceptable specimen of use.

Conclusion

- All of the changes discussed in this presentation remain open to further developments through legislation, or through case law interpreting recent decisions.
- There remain questions as to what will happen and where these recent developments will take us.
- Businesses should proceed with the above developments in mind, but should be aware that there is still room for further development or interpretation of the precedents and trends discussed above.