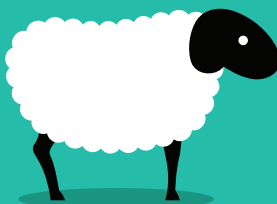
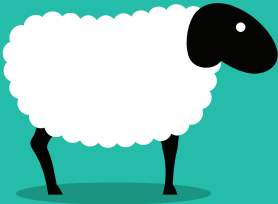
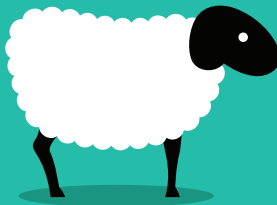
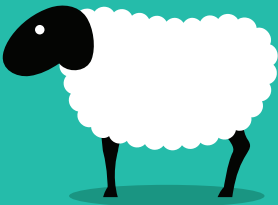
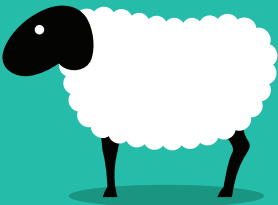


# Anti-counterfeiting 2016 A Global Guide



Food products: how plain packaging could make  
counterfeiting easier  
McCarter & English, LLP



## Food products: how plain packaging could make counterfeiting easier

Authors

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As society becomes ever more health conscious, demand has grown for more information – including ingredients and warnings – about the products that we consume. In response, government agencies worldwide are considering regulations to help to raise awareness of the risks or health concerns involved with certain products. One such regulation, instituted in some countries and under consideration in others, is plain packaging: the requirement that the packaging of certain products be plain, in order to highlight any warning placed on them. However, these well-intentioned regulations may carry more drawbacks than benefits for both the businesses that sell the goods and their consumers. If implemented, these regulations would interfere with the public's private rights to trademarks, make counterfeiting easier and increase consumers' search costs, as well as the risk of harm from low-quality imitations or counterfeits.

### **Plain packaging deprives brand owners of IP rights**

It is well established that IP rights associated with branding are highly valuable assets. Branding (ie, creating recognition of and a positive response to a brand) is one of the most important endeavours that a company undertakes in marketing and selling a product. The value of such efforts is so widely recognised

that most countries have enacted trademark laws that recognise a limited monopoly in a trademark based on certain criteria.

Plain packaging – also known as homogenous, generic or standardised packaging – undermines these protected IP rights by requiring that all branding be removed from packaging (including colours, logos and imagery of any kind), and that the manufacturer's word mark be printed only in a mandated size, font and specific location. These regulations were implemented in Australia in 2012 in connection with tobacco products. More recently, Ireland and the United Kingdom passed similar laws banning branding on cigarette packaging, beginning in 2016. Plain packaging regulations are under consideration in other countries, including Canada, Finland, France, Hungary, New Zealand, Norway, Singapore, South Africa, Sweden and Turkey.

### **Food and beverage products: particularly vulnerable to plain packaging**

Brands and consumer groups have suggested that tobacco plain packaging laws could pave the road for application to certain foods and beverages. Several countries – including Finland, France, Hungary and Mexico – have already raised the tax rate on certain foods and beverages. Similarly, many US state legislatures have considered or imposed so-called 'snack taxes' on foods such as

crisps, cookies and candy. Maine passed a bill focused on ‘unhealthy snacks’ in June 2015, reinstituting a similar law that had been repealed in 2001. These measures indicate that raising awareness about health concerns regarding food has become a priority and plain packaging may be viewed as a potential next step.

Although plain packaging is designed to protect the public, its benefits as applied to food are unlikely to outweigh the costs that it imposes on the public and competition generally. When applied to cigarettes, there is already evidence that the alleged health benefits of these regulations have failed to outweigh the costs of obstructing companies’ private branding rights in marketing those goods. As applied to foods, the balance tips even more strongly in favour of protecting brand owners’ rights.

Further, packaging features are particularly important for food products. Trademarks were traditionally thought to encompass only a brand’s name (or word mark – for example, KELLOGG’S or STARBUCKS). Today, the definition of a ‘trademark’ has expanded to include other distinctive features of a product or its packaging, including shapes, scents and colours that – through use by a specific company – come to serve as indications of source to consumers. Common examples include the famous shape of a glass Coca-Cola bottle and the distinctive colour combination, bottle shape and font of 5-Hour Energy drinks. Unlike clothing – where the mark often appears only on the tag – food and beverage products are sold in colourful, distinctive packaging, which is an integral part of their brand image. In the food industry, trade dress in the form of packaging is therefore central to a company’s branding efforts; companies have a right to use that trade dress as a matter of law.

### **Legal arguments against plain packaging**

Like tobacco brands, food and beverage brands are armed with arguments that plain packaging restrictions violate national laws and international treaties regarding trade and intellectual property. Imposing uniform packaging, devoid of any distinctive or stylistic features, effectively prevents the use

of recognised trade dress on food products. In effect, rights holders would be forced to relinquish the use of a valuable asset in which significant resources had been invested and lose the benefit of the goodwill associated with their trade dress. Inevitably, even if a watered-down version of plain packaging laws were to be implemented in the United States, it would deprive rights holders of their private federal right under the Lanham Act to use all source-indicating features in marketing their goods.

In Australia, although unsuccessful, tobacco manufacturers argued that the Tobacco Plain Packaging Act violated Section 51(xxxi) of the Constitution, which allows Parliament to make laws regarding “the acquisition of property on just terms”. The Australian High Court, while recognising that the Tobacco Plain Packaging Act could be considered a ‘deprivation’ of intellectual property, determined that the Tobacco Plain Packaging Act was not an ‘acquisition’ of the intellectual property because the government was not appropriating those rights for itself. This finding could have application in legal battles in the European Union, where the Charter on Fundamental Rights and Freedom states that “no one may be deprived of his or her possessions, except in the public interest and... subject to fair compensation”.

While the US Congress has not yet considered plain packaging laws, it has mandated that the Food and Drug Administration (FDA) require new graphic warnings on cigarette packages. This mandate that cigarette packages have graphic warning labels has since been upheld and affirmed in federal court. Tobacco manufacturers challenged the FDA’s implementation of the mandate – a regulation requiring graphic warnings covering 50% of the surface of each cigarette package – in the US District Court for the District of Columbia. The court found that the FDA’s regulation was unconstitutional because it limited tobacco companies’ First Amendment right to freedom of speech.

Additionally, the International Trademark Association has determined that plain packaging violates various international treaties, including:

- the Paris Convention (eg, Articles

*6quiues*, 7 and 10*bis*, which provide protection from unfair competition and from denying registration based on the nature of goods);

- the Technical Barriers to Trade Agreement (eg, Article 2.2, which ensures that technical regulations on trade do not “creat[e] unnecessary obstacles to trade”); and
- the Agreement on Trade-Related Aspects

of Intellectual Property Rights (eg, Articles 2, 8.1, 15.4, 17, 20 and 26, which provide “the use of a trademark in... trade... shall not be unjustifiably encumbered by special requirements”).

### Negative consumer impact of plain packaging

Beyond private rights holders’ rights are the less-discussed effects on and risks to



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Mr Donoian has been responsible for global anti-counterfeiting enforcement programmes, successfully implementing strategies combining various IP claims and equitable remedies to obtain seizure orders, asset restraints and other novel forms of equitable relief against domestic and foreign companies – often concurrent with criminal actions in the United States and civil or criminal actions in foreign jurisdictions. He also manages international trademark portfolios and advises on IP transactions.



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Margarita Wallach has counselled clients in connection with the creation, development and protection of their intellectual property for over 15 years. She litigates trademark, trade dress, copyright infringement and unfair competition cases involving food products, cosmetics, fine jewellery, designer apparel and perfume. She worked on the successful appeal of a seminal case involving a famous apparel colour trademark.

Ms Wallach successfully litigated an anti-counterfeiting case against a ring of fine jewellery counterfeiters, resulting in judgments of over \$30 million. Her practice also focuses on consumer brand development. She has represented small consumer product companies that have grown into world-famous brands. Clients benefit from her long-established relationships with investors, manufacturers, distributors and advisers in the food and beverage industries.

the public. For example, trademark laws in the United States and other countries are designed not only to create private rights in companies, but also to protect the public from confusion between sources in the marketplace and reduce consumers' search costs. In essence, trademark law provides assurance to consumers that they can rely on certain distinctive product characteristics generally associated with the brand owner in making purchasing decisions, because that brand owner has the monopoly over their use. This reduces search costs because consumers spend less time looking to the ingredients, manufacturing location and other features to determine the quality of one product over another. Instead, consumers can rely on a distinctive trademark to indicate a certain quality of the product.

In the context of plain packaging on food items, the issue of consumer confusion and search costs arises from the inability of consumers to rely on anything other than the block-letter brand name to identify a product's genuine source. Even if a logo, stylisation of the mark or use of colour were permitted under any new regulations, plain packaging would still likely cause brands to look very similar to consumers. While distinctive trade dress commonly serves as an independent indication of source, it is often perceived as complementary to the word mark in indicating origin. For example, packaging that reads "Kit Kat" may be insufficient to a consumer to indicate that the bar is a genuine Kit Kat bar if it does not also contain the other distinctive elements of the brand, such as the red packaging, the appropriate font and the unique shape of the chocolate bar. Because distinctiveness of packaging is a fundamental component of source indication for food items, consumers rely on trade dress to determine whether goods are genuine. This reliance on packaging features might arise due to the perceived cost and difficulty associated with replicating more complex designs, rather than a block-letter name.

#### **Potential for increased counterfeiting under plain packaging laws**

Further, plain packaging laws compound the risks of consumer confusion and public

health hazards because the simplicity of the required packaging makes counterfeiting easier. A counterfeiter need only reproduce, in plain font, a brand name and follow publicly available colour, size and other specifications for packaging. At the same time, plain packaging makes it very difficult for consumers to confirm the authenticity of a product, which in turn raises their search costs. Therefore, plain packaging rules on food items run completely counter to the public policies that underlie the US Lanham Act and the trademark laws of other countries.

Plain packaging also makes it more difficult for brand owners to monitor counterfeits and enforce their trademarks in the marketplace. Counterfeiters stand to benefit from plain packaging laws because they limit the techniques that companies can use to identify counterfeiters and enforce their IP rights. The simpler the product package, the easier it will be to counterfeit. Brands incorporate a variety of strategies to differentiate their legitimate products from counterfeits, including tactile features (eg, embossed fonts), security markings (eg, holograms), markings for tracking (eg, barcodes) and invisible security features (eg, hidden images). With specific requirements for the look and feel of products, plain packaging laws prevent the application of many of these techniques. While it is as yet unclear whether the laws will allow for imperceptible policing techniques, such strategies are successful only to the extent that they enable the identification of counterfeited products. If an image is hidden from a counterfeiter, it is also hidden from a consumer and thus does not confer the benefit of that information to the consumer.

The impact of plain food packaging on competition and counterfeiting does not stop there. These regulations would also prevent food brands from changing or improving their packaging design, effectively depriving companies and the public from competitive and innovative packaging technologies. Plain packaging blocks food companies from creating more distinctive or aesthetically pleasing packaging or implementing improvements in packaging technology that could provide a competitive edge. For

example, brands may not benefit from making it easier to break a seal or remove a product from a package. Aside from falling foul of patent laws, this proscription on innovation also creates a static market for counterfeiters. Counterfeiters operating in countries with plain packaging laws need not adapt to modifications of packaging, thus reducing their own operating costs and the chances of being caught. In this way, plain packaging laws not only ease the path to market entry, but also encourage counterfeiters to remain in the market. Indeed, early data from Australia suggests that smuggling and counterfeiting of cigarettes have increased by 40% since the implementation of the Tobacco Plain Packaging Act.

### Conclusion

The lack of reliable indications of source is all the more dangerous in the food and beverage industry, as counterfeit versions of those products can potentially have a severe impact on a consumer's health and therefore on his or her experience with a brand. Counterfeiting often involves cheap, low-quality imitations of goods that may even contain hazardous substances bearing identical replicas of the trademark, which may harm consumers and deprive brand owners of control over their brands' reputation, leaving them faced with potentially dangerous replicas of their goods. Any low-quality or hazardous replica of a brand owner's goods can damage its reputation. In the context of food, where the quality of that replica could affect health or cause bodily injury, the results can be much more damaging.

For these reasons, even outside the context of plain packaging regulations, food and beverage companies must be particularly

vigilant about their marks and trade dress and the manner in which they are used. Aside from the basic steps of selecting a distinctive mark and clearing it prior to use, strategies include:

- registering one's mark with Customs;
- drafting very narrow distribution, manufacturing or other forms of licensing agreement;
- using hologram stickers or other hard-to-copy forms of identification such as ultra-violet printing; and
- above all, actively policing one's mark against third-party uses of identical and confusingly similar marks to prevent loss of rights in that intellectual property.

Further, companies should advocate for public health regulations and laws that leave room for them to benefit from the valuable intellectual property that they have cultivated. **WTR**

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