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## Fashionably late

Covington & Burling's **Eveline van Keymeulen** and **Louise Nash** examine the US courts' unwillingness to apply IP protection to fashion works

**The global fashion industry (including apparel, footwear and accessories) is estimated to be worth \$1,306 billion, thus accounting for approximately 2.1% of the global gross domestic product (GDP).**

Although the fashion market has a truly international character, the majority of "creative" fashion originates in Europe and the US, where major designers introduce their collections in a series of runway shows at famous "fashion weeks" in Paris, London, Milan, and New York. The European market, in pole position, accounts for \$443 billion, while the North American market represents the second largest market with \$352 billion. Remarkably, the fashion industry shows the highest revenues of all creative industries, exceeding those of books, movies and music combined.<sup>1</sup> The signs are, at least at the top end of the luxury market, that sales will continue on a double-digit growth trajectory, despite the difficult economic environment.<sup>2</sup>

IP protection is at the core of the – profitable – European fashion business model, which is driven by fast-paced innovation embodied in the creation of seasonal collections of new fashion designs. In the European Union (EU), a great variety of fashion products (including classic categories of apparel, footwear, and accessories) can be protected by multiple forms of IP separately or cumulatively; in particular by the Community and national design rights and national copyright, but also trademark, patent and unfair competition law. IP is fundamental to the strategies of most large EU fashion companies, yet many small and medium-sized enterprises pay little attention, if any, to protecting these highly valuable intellectual assets.

Despite being legally protected in the EU, fashion designs such as the

way a specific garment is cut and assembled, is not protected under US law. *Sui generis* design rights do not exist in the US. Copyrights are generally not granted to apparel because articles of clothing are considered useful articles as opposed to works of art. Design patents are intended to protect ornamental designs, but clothing rarely meets the demanding criteria of novelty and non-obviousness. Trademarks only protect brand names and logos, not the clothing itself, and the Supreme Court has refused to extend trade dress protection to apparel designs. Thus, on the other side of the Atlantic, one of the most creative aspects of the fashion industry has been deprived of solid legal protection. Despite this important difference, both the EU and US fashion industries are thriving. This may lead EU designers to believe that investment in IP protection is not a *sine qua non* of innovation in fashion design. However, this article supports the contrary.

### The piracy paradox: does fashion piracy promote innovation?

In a very influential article, Raustiala and Sprigman have advanced the argument that in the fashion industry, "piracy paradoxically benefits designers"<sup>3</sup> – a theory that has been followed by many other US scholars. The so-called 'piracy paradox' is the notion that "copying fails to deter innovation in the fashion industry because, counter-intuitively, [it] actually promote[s] innovation and benefit[s] originators."<sup>4</sup>

In other words, in the fashion industry, rapid widespread copying is considered an innovation inductor. Sales of counterfeits may advertise and

even exaggerate the popularity of the relevant item. For example, in the famous case *Louis Vuitton Malletier v Dooney & Bourke*, the expert report prepared for Louis Vuitton actually found that, for at least some consumers, awareness of the alleged copy made the Louis Vuitton bag more desirable.<sup>5</sup> Followers of this theory also advocate that knockoffs help drive trends and generate more demand for new designs, since the old designs – the ones that have been copied – are no longer special, which results in greater sales of apparel. Ultimately, piracy is said to spur more innovation because designers have to stay ahead of copycats.<sup>6</sup> Not surprisingly, this camp of authors strongly opposes the pending legislative proposals aimed at extending US copyright protection for articles of apparel.

### **“The mere fact that European designers have maintained their pole position in the worldwide fashion market rebuts most of the piracy paradox proponents’ arguments in itself.”**

#### **The piracy paradox dismantled**

However, this piracy paradox “thesis” is not convincing. The mere fact that European designers have maintained their pole position in the worldwide fashion market rebuts most of the piracy paradox proponents’ arguments in itself. While there are plenty of good rationales for fashion protection *per se*, the EU design protection regime – ie, a *contradictio in terminis* with the US piracy paradox – has also proven to be an effective means for the protection of fashion design over the past decade.

#### **Rationales for fashion protection**

Fashion designers – in particular emerging designers – should invest in solid protection of their creative designs, even more so because of a couple of recent trends in the fashion industry.

#### **Protection of emerging designers**

Proponents of the piracy paradox argue that only famous designers benefit from protection of the actual design. To the contrary, emerging designers benefit more from design protection, as they are less protected by existing trademark and trade dress regimes than well-branded luxury firms. In addition, as they have less resources to sponsor a court battle, a legal prohibition of knockoffs may give their – rather weak – “bark a little more bite”<sup>7</sup> and discourage copyists from infringement in the first place. As Karl Lagerfeld put it, copying “can be very damaging for small firms, though for a house like Chanel, it means a lot less”<sup>8</sup>. For the large fashion houses, IP protection is only one weapon in the armoury. Significant resources can also be devoted to cooperation with customs and law enforcement officials, and to working closely with international trade organisations and national bodies. As the current US system, which consists of strong trademark protection accompanied by a lack of actual design protection, clearly favours famous fashion houses with the ability to deploy all of these defences, skeptics of IP protection for apparel should be critical of trademarks rather than copyright/design protection.<sup>9</sup> As one young designer aptly expressed: “They can just sell their trademarks. We have to sell our designs.”<sup>10</sup>

#### **Defence against fast-copying techniques**

Because of the recent rise of fast-copying techniques, mainly attributed to the internet, and the large scale and low cost at which rapid copies can be made, a fashion design can now be stolen “before the applause has faded”<sup>11</sup>. This poses a serious threat to future innovation, and thus undermines the piracy paradox theory. Due to the fact that making a

marketable knockoff product used to take between several months and a year (due to the labour-intensive and expensive nature of making a close copy), designers traditionally enjoyed a season’s worth of protection before their design could be appropriated by fashion copycats.<sup>12</sup> Today, however, technological advancements, such as digital photography and computerised pattern-making, have made copying nearly instantaneous.<sup>13</sup> In addition to the unprecedented access to images of new fashion designs, advances in the speed of apparel production (eg, electronic transmissions to low-cost manufacturers overseas and express shipping) have also increased the pace of the knockoff cycle.<sup>14</sup> These techniques also allow copyists to wait and see which high fashion designs succeed and target only those, as knockoffs will easily reach market before the relevant trend has ended.<sup>15</sup>

#### **Response to blurring market segments**

Opponents of fashion design protection typically contend that original designs and knockoffs address different market segments and therefore designers (with higher price tags) do not lose customers and revenues. Market research, however, proves that fashion piracy results in returns, decreased sales, or cancelled orders once the knockoff appears on the market,<sup>16</sup> not seldom because the high value of originals – which derives in part from their scarcity – is lessened. Famous designers also see customers turning to cheaper knockoffs (“good deals”), and some products are abandoned because consumers start doubting their authenticity as more knockoffs emerge.<sup>17</sup> Moreover, this “split market” rationale does not take into consideration that copying can occur between parties at the same level of the fashion industry,<sup>18</sup> as illustrated by the French landmark case of *YSL v Ralph Lauren* and the recent US court battle between *Christian Louboutin and YSL*. Ultimately, top end designers such as Lagerfeld and Jimmy Choo have shown an increasing willingness to collaborate with large mass-market retailers such as Topshop and H&M in recent years – initiatives that have been received with great enthusiasm by vast amounts of consumers worldwide. However, as a result, market segments have blurred, and knockoffs are now harmful to all levels of the fashion industry, so IP protection of fashion designs is now more crucial than ever.

#### **EU design protection regime proven effective for fashion designs**

Europe, with its well-grounded design protection regime, remains the hub of *haute couture*.<sup>19</sup> Three out of the top five of this very moment’s wealthiest Europeans are heavyweights of the European fashion industry. Bernard Arnault, who leads the French luxury conglomerate LVMH (Moët Hennessy Louis Vuitton), is the wealthiest European citizen and ranks number four on Forbes’ world’s billionaires list. Amancio Ortega, founder and chief executive of Zara and Spain’s wealthiest citizen, is second in the EU rankings, while fourth place is occupied by Stefan Persson, chief executive of H&M (Hennes & Mauritz).<sup>20</sup> To the contrary, not a single US fashion brand owner appears in Forbes’ top 100.

The *sui generis* EU design right, in particular the unregistered design right, has been called the “Herculean weapon in the European design battlefield”<sup>21</sup>. Indeed, the introduction of EU-wide unregistered design protection has been a giant leap forward for the fashion industry, which greatly benefits from automatic and short term (three years) protection for their usually seasonal design portfolios. For fashion items with a longer life span (in particular, footwear and accessories), the registered design regime offers a much broader and longer protection (of up to 25 years).

The success of the EU design protection scheme has nevertheless been called into question by proponents of the piracy paradox because of the rather low number of registrations and infringement suits related to fashion designs. However, as most articles of apparel are seasonal items with a short shelf-life, designers generally do not apply for registration, but opt for the unregistered design protection regime. Most of the designs registered by fashion houses are not for clothing, but for accessories – bags, sunglasses, watches, etc.

In addition, it is often argued that the paucity of cases that make it to European courts testifies to the fact that designers do not really insist on applying their rights. Case law involving design rights is increasing. The recent *Karen Millen* and *Jimmy Choo* cases are important precedents, and during the first half of 2011, the first two fashion-related design cases have been decided by the European courts.<sup>22</sup> EU design legislation is, however, in the first place meant as a deterrent, rather than an inducement to file lawsuits, and is therefore often used by fashion designers “as a shield and not as a sword”<sup>23</sup>. The absence of abundant high-profile infringement suits is an indication of the fact that design disputes are most often resolved through confidential out-of-court settlements. Indeed, even mere knowledge of existing rights generally keeps designers from copying each other too closely, or encourages them to settle out of court.

A look at the EU fashion market provides the best evidence that the design protection regime encourages innovation, as – particularly cheap-chic – designers seek to design around the law by copying the general style of a look without encroaching too closely on the original.<sup>24</sup> Traditional European mass-market brands like H&M, Zara, Mango, Topshop, and Massimo Dutti are incredibly successful because of their affordable designs inspired by the latest fashion trends set by high end designers, but have seldom been accused of infringement. As a result of the EU design protection regime, no real knockoff brands, such as the American labels Forever 21 and ABS, have emerged in (continental) Europe. It remains to be seen whether Forever 21’s US business model will survive in the EU, after the chain recently cracked the EU market with stores opening in (amongst others) London, Brussels and Antwerp last summer.

### Is the US piracy paradox dismantled by the EU design protection regime?

In sum, IP protection for fashion designs – the creative heart of the industry – is crucial. One decade after the EU Design Regulation came into force, the EU “fashion police”, consisting of a colourful pallet of IP rights, has certainly earned its stripes. While European legislators and courts have walked down the legal runway in a rather elegant way, current US law shows a complete lack of understanding for the fashion industry. Recognising a fashion design merely as a piece of cloth that has the sole purpose of covering the body, underlines the US courts’ unwillingness to apply IP protection to fashion works. However, an EU-tailored protection regime would certainly benefit the US fashion industry as well. While piracy paradox proponents may still argue that the US fashion industry is doing good today, new technologies and trends will soon prove that, in a global fashion market, only one size – ie, that of solid IP protection – fits all.

#### Footnotes

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5. J Barnett, ‘Shopping for Gucci on Canal Street: Reflections on Status Consumption, Intellectual Property and the Incentive Thesis’, 91 *Virginia Law Review* 1381, 1401 (2005).
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11. See H.R. 5055 Hearing.
12. L Howard, ‘An uningenious paradox: intellectual property protections for fashion designs’, 32 *Columbia Journal of Law and the Arts* 101, 131 (2009).
13. S R Ellis, ‘Copyrighting couture: An examination of fashion design protection and why the DPPA and IDPPPA are a step towards the solution to counterfeit chic’, 78 *Tennessee Law Review* 163, 186 (2010).
14. C S Hemphill & J Suk, ‘The law, culture, and economics of fashion’, 61 *Stanford Law Review* 1147, 1170 (2009).
15. C S Hemphill & J Suk, ‘The law, culture, and economics of fashion’, 61 *Stanford Law Review* 1147, 1170 (2009).
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17. See *Hermès Int'l v Lederer de Paris Fifth Ave, Inc*, 219 F.3d 104, 108 (2d Cir 2000).
18. S Beltrametti, ‘Evaluation of the design piracy prohibition Act: is the cure worse than the disease? An analogy with counterfeiting and a comparison with the protection available in the European Community’, 8 *Northwestern Journal of Technology and Intellectual Property* 147, 157 (2010).
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20. *Forbes*, ‘The world’s billionaires’ (2011), available at <http://www.forbes.com/wealth/billionaires/list> (last visited 20 August 2011).
21. See S Beltrametti, ‘Evaluation of the Design Piracy Prohibition Act: Is the Cure worse than the Disease? An Analogy with Counterfeiting and a Comparison with the Protection Available in the European Community’, 8 *Northwestern Journal of Technology and Intellectual Property* 147, 169 (2010).
22. See EU General Court, T-153/09, *Jose Manuel Baena Grupo v OHIM (“Ornementation”)*, 16 December 2010; and EU General Court, T-68/10, *Sphere Time v OHIM – Punch*, 14 June 2011.
23. S Beltrametti, ‘Evaluation of the Design Piracy Prohibition Act: Is the Cure worse than the Disease? An Analogy with Counterfeiting and a Comparison with the Protection Available in the European Community’, 8 *Northwestern Journal of Technology and Intellectual Property* 147, 172 (2010).
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