Who says fashion can’t be sustainable?

Exhaustion of Rights: “Be Original[1]” but Refrain from “Reworked” Our Products.

Consumers are becoming increasingly environmentally conscious and focused on sustainability, especially within the fashion industry, which accounts for nearly 10 percent of global greenhouse gas emissions[2]. The secondary market for fashion and luxury goods currently represents 3 to 5 percent of overall fashion sales, with an expected 40 percent growth in the coming years[3]. Responding to these shifts, new approaches to fashion consumerism have emerged, offering alternatives to traditional clothing and accessory purchases. In this context, we will delve into upcycling, a practice that has gained recent prominence.

Upcycling involves enhancing existing products by modifying them to attract consumer interest. It encompasses two primary approaches:

(i) disassembling original products to create new items using their components, often incorporating elements from items adorned with well-known logos into crafting new accessories; and

(ii) transforming original products into novel forms by augmenting them.

- **Infrigement of Intellectual Property (IP) rights** is a distinct risk when upcycled products incorporate materials bearing logos or other trademark protections.

To establish such trademark infringement, a trademark holder must demonstrate that the person responsible for producing these upcycled items uses the same or a similar trademark in a commercial activity without the holder’s permission, potentially leading to a likelihood of consumer confusion regarding the source of these products. Consequently, upcycled products may infringe IP rights by introducing the prospect of consumer confusion concerning their origin.

Unfair competition and parasitism can occur when a person intentionally associates its product with that of a famous fashion house. Parasitism can be defined[4] as a set of behaviours through which an economic agent intrudes into the sphere of influence of another to gain a profit without incurring any expenses, leveraging their efforts, reputation, and know-how[5]. It is important to note that parasitism can occur even in the absence of any likelihood of consumer confusion. However, mere slavish copying is not inherently unlawful; a parasitic wrongdoing must be proven. As a result, upcycling is not inherently considered parasitic. Instead, parasitic intent becomes evident when a company intentionally links its product with that of a renowned fashion house. In such cases, any ambiguous association that suggests a possible partnership or economic connection between the upcycled product and the esteemed fashion house may be classified as parasitic.

However, using a trademark without the rights holder's approval may be permissible in specific cases by applying the exhaustion principle, commonly known as the first sale doctrine.

According to Article 15.1 of the European Trademarks Directive, under the exhaustion principle,

a trademark proprietor cannot prohibit use of its trademark on goods introduced into the European Economic Area (“EEA”) with the proprietor's consent or by the proprietor itself.

An exception to the exhaustion principle arises when there is a modification in the product's quality. As stated in Article 15.2 of the European Trademark Directive, the exhaustion of rights shall not apply in situations where valid reasons exist for the trademark proprietor to challenge the continued commercialisation of the goods, especially if the condition of the goods is changed or impaired after they have been put on the market.

- Consequently, upcycled products incorporating materials featuring logos and other trademarks may potentially be regarded as trademark infringements due to their substantial divergence from the original items.

Creativity and a focus on sustainability among consumers are driving brands to strive for continuous innovation. While the theory of exhaustion of rights provides substantial protection after products are placed on the market, **caution is needed to avoid overstepping boundaries when modifying and reworking products.**

A recent example showcasing the practical application of the first sale doctrine has emerged from the United States. Levi's has initiated an exciting lawsuit against Coperni, accusing them of using fabric tabs and stitching patterns strikingly similar to their own. Additionally, Levi's contends that Coperni is offering products featuring these infringing trademarks alongside genuine Levi's items that have been "reworked" without authorisation of the fashion brand. Our primary focus here centres on the sale of these "reworked" Levi's products, setting aside the initial claim.

What adds intrigue to Levi's complaint is its focus on Coperni's modified items that prominently feature Levi's trademarks, including the fabric tab and the iconic Arcuate stitching (typically found on Levi's back pockets).

Levi argues that Coperni's unauthorised alterations and resale of these items amount to trademark infringement and dilution.

The defendant's legal counsel is anticipated to rely on the first sale doctrine to protect the brand from potential trademark liability associated with the resale of genuinely authentic Levi's products that were procured, modified, and subsequently resold. However, when alterations are made to the core product, it becomes crucial to emphasise the significance of transparent disclosures informing consumers about the modified product's nature.

As of the date of the complaint, based on the products currently showcased on Coperni?s website (namely, its Hybrid Flare Denim Trousers and Denim Miniskirt), which incorporate Levi?s products and trademarks, Coperni does not make mention of how Levi?s trademark-bearing jeans were integrated into the products that it is reselling. It is worth highlighting that the products/images on Coperni's website concerning these "infringing" products have been modified and no longer include Levi's fabric tabs and Arcuate stitching.

Could this lawsuit lead to a ground-breaking court ruling explicitly addressing whether upcycled products can rely on the principle of trademark exhaustion and potentially avoid being classified as trademark infringement? It is important to note any judgment coming from the United States

on the matter cannot be directly applied in Europe, but may still shed light on the situation.

Watch this space for further developments.

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[1]Levi's slogan, "Be original" in 2003, see here.

[2]UNEP'S report, *Sustainability and Circularity in the Textile Value Chain: A Global Roadmap*, published on May 30, 2023, available here.

[3]Boston Consulting Group, *What an Accelerating Secondhand Market Means for Fashion Brands and Retailers*, published on October 05, 2022, by Raphaël Estripeau, Felix Krueger, Judith Vitrani, Sarah Willersdorf, Pierre-François Marteau, Fanny Moizant, and Maëlle Gasc, available here.

[4]The theory of parasitism has not been considered by European Union law. Different viewpoints regarding parasitism among the various European Union Member States and the extent of issues concerning unfair competition have prevented the European Union from adopting directives in this matter.

[5]French concept of parasitic competition, Y. Saint-Gal, *Unfair Competition and Parasitic Competition [or Parasitic Acts]*: RIPIA 1956, p. 19 et seq. Parasitism is defined in Luxembourg as "*the imitation of the ideas and work of others without spending anything. It enables a company to save financial and intellectual costs when marketing its products. It can exist independently of any risk of confusion between the victim's work and that of the parasite, as well as the originality of the parasitized good*", Court of Appeal [Commercial], March 21, 2007, Pasicrisie T.33, p. 414

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