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**The protection of fashion design against
copying: a comparative analysis**

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*Al mio papà,
che mi ha insegnato a seguire sempre la strada della passione*

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“In order to be irreplaceable one must always be different”

Coco Chanel

Introduction

The fashion industry is one of the most lucrative and widespread in the world, with an estimated turnover of US \$1,2 trillion, of which more than \$250 billion only in the U.S.¹, that is larger sales than those of books, movies, and music combined². Due to its economic importance in the global economy and the many recent cases that raised specific industry-related issues, fashion has lately been the subject of lobbyist, legislative and academic debate.

With the exception of least developed countries, where clothing is still a necessity and not ornamentation, everyone participates in fashion to some extent and every aspect of social life- arts, sciences, politics, academia, entertainment and even law and morality- exhibits fashion in some way. While traditionally it has been treated as a window upon social classes and social change, it is now clear that fashion is more a means of individual expression, embodying representative characteristic of modernity, and even of culture itself³. It is also now generally recognized the increasing importance that design has in modern life and its connection with economic performance, since it comes as no surprise that the top global companies are also design leaders in their respective fields (e.g. Apple for I-Tech products). This is because, in addition to often provide more efficient and pleasant goods, in the modern consumer culture, not longer based on necessity alone but on a whole of psychological and sociological factors, consumption of certain design products allows consumers to express their cultural and social values, such as environmental and ethical sustainability⁴.

However, because of their hybrid nature between innovation and creative expression or applied arts and fine arts - that is between patentable or copyrightable subject matter - fashion design in particular and industrial design in general have traditionally been difficult to categorize under a specific scheme of

¹ LeadFerret, "LeadFerret Releases a Directory of Contacts in the Fashion and Apparel Industry" (press release, January 16, 2014) cited by the Joint Economic Committee of the United States Congress in <<https://maloney.house.gov/sites/maloney.house.gov/files/documents/>>. All websites cited in this work were last visited between January and May 2017.

² For comparison, U.S. publishers had net sales of \$25 billion in 2007. http://www.publishers.org/main/IndustryStats/indStats_02.htm. The motion picture and video industry had estimated revenues of \$64 billion in 2003. U.S. Census Bureau, 2003 Service Annual Survey, Information Sector Services (NAICS 51)—Estimated Revenue for Employer Firms: 1998 Through 2003, at 1, tbl. 3.0.1 (2003), <<http://www.census.gov/svsd/www/sas51-1.pdf>>; see also Motion Picture Association of America, Inc., Entertainment Industry Market Statistics 2007, at 3, available at <<http://www.mpa.org/USEntertainmentIndustryMarketStats.pdf>> (reporting U.S. box office sales of nearly \$10 billion in 2007). The music industry had U.S. revenue, measured at retail, of about \$10 billion in 2007. Recording Industry Association of America, 2007 Year-End Shipment Statistics (2007), <<http://www.riaa.com/keystatistics.php>>.

³ See S. HEMPHILL, J. SUK, *The Law, Culture and Economics of Fashion*, 61 *Stand. L. Rev.* 1147, 1148 (2009).

⁴ See S. MONSEAU, *The Challenge of Protecting Industrial Design in a Global Economy*, 20 *Tex. Intell. Prop. L.J.* 495 (2012).

intellectual property rights. Most legal systems, among which most importantly the European Union, have thus adopted *sui generis* rights in the form of limited copyright-like protection. An important exception is the case of the United States, where there is no specific protection for market entry designs but they are clumsily protected by a combination of design patent, copyright and trademark law.

In a global market like that of fashion, the territorial nature of intellectual property law and the competing degrees of protection afforded to fashion designs in different countries have created a situation of fragmentation, that can affect prices and stifle creativity⁵. Therefore, there is need of a more coherent regime of protection and this task is necessarily to be fulfilled at an international level. If we consider that the same case, like for example the case *Gucci v. Guess* that is later examined in this thesis, can result in four different outcomes in four different countries, the matter appears even more compelling.

What type of IP protection is most suited to fashion design? What standard of creativity is to be required for a design to be protected? Has protection to be granted only for artistic features or for functional features as well? Are industrial design law and copyright law to be construed in a cumulative or non-cumulative relation? This work aims to answer to all of these questions and to demonstrate that there is need of further protection for fashion design. It attempts to support its position with an economic analysis of the law, that can explain why copying is harmful for both designers and consumers, since it negatively affects the quantity as well as the direction of innovation produced by the fashion industry.

The work is made up of three chapters: the first Chapter will give a general overview of the current status of fashion design protection both at the national and international level. It will analyze first the EU legislation and then the US non-legislation and the reasons for its failure. To conclude, it will shortly illustrate the international agreements relevant to the subject and their contribution to the creation of an international regime of industrial design protection. The second Chapter opens with a sociological analysis of fashion consumption and considers the two opposite theories that divide the American academia. Afterwards, it applies the basic incentives theory of IP to the newly developed concept of stylistic innovation⁶ and, based on a cost-benefit analysis, it seeks to outline what would be the optimal solution, that strikes a balance between the interests of designers and those of consumers, although, as I will show, they do not necessarily conflict, since they both have an interest in innovation. The third and final Chapter will deal with the implications of territorial IP legal rights in a global market. It will first address the problem of counterfeiting and its enforcement by national authorities, especially in countries like China, that have an economic interest in counterfeiting activities. It then moves to a case study to analyze from a more practical perspective the lack of uniformity and certainty at the international level and its impact on the fashion industry. Finally, it discusses whether under the current regime the U.S. are in compliance with their

⁵ See G. B. DINWOODIE, R. C. DREYFUSS, *A Neofederalist Vision of TRIPS. The Resilience of the International Intellectual Property Regime*, Oxford, 2012, ix.

⁶ T. S. SCHWEIZER, *Managing Interactions between Technological and Stylistic Innovation in the Media Industries, Technology Analysis & Strategic Management*, 2003, 15.1, 19-41.

international obligations and what steps are to be taken to promote integration of the international intellectual property regime.

This work comes as the natural ending of my academic career, after the LL.M in Intellectual Property Law I pursued at Washington University in St. Louis, in the United States, where I had the chance to attend several IP classes and analyze my ever-lasting passion for fashion under a legal perspective. Thus, the shape and structure of this thesis has been influenced by the Anglo-American style of draft and research.

A special thanks goes to Attorney Elena Varese, of DLA Piper Law Firm, whom I have had the privilege to interview, for her invaluable support.

I. THE CURRENT LANDSCAPE OF FASHION LAW

In the last decades fashion design has been the object of increasing attention by all the legislatures of the world, but with different results because while all the other major fashion-centered countries have adopted IP protection specifically tailored to fashion design, the United States have not done so yet, thus lagging behind them and failing to provide fashion designers uniform protection. At the international level, multilateral agreements like the Paris and Bern Conventions have been signed in the late nineteenth century and the European Union has passed measures to promote uniformity among its Member States. Finally, a more comprehensive instrument of international IP law was adopted only at the very end of the twentieth century with the TRIPS Agreement, which generally afforded higher and more detailed protection and had a broader scope of application. Nowadays, although international consensus on the type and standards of fashion design protection is still lacking, some core principles are nonetheless emerging in what Professors Dinwoodie and Dreyfuss have called an “international intellectual property acquis”⁷.

1. THE EUROPEAN UNION LEGAL FRAMEWORK

In the attempt to harmonize design protection among its Member States, the European Union has been offering specific design protection for several years, in addition or in alternative to national legal protection⁸.

After a first step taken in 1977 by the subcommittee of the European Community’s Coordinating Committee for Harmonizing the Law of Industrial Property, a first proposal came sixteen years later⁹ when the European Institutions started to recognize the importance of industrial design to the economy. In order to “provide [] for the establishment of an internal market characterized by the abolition of obstacles to the free movement of goods also for the institution of a system ensuring that competition in the internal market is not distorted”¹⁰, in the October 1998, the European Council adopted the European Directive 98/71/CE on the Legal Protection of Designs, urging Member States to harmonize their laws in accordance with its standards.

However, it was soon clear that differences in the laws and the procedures within the EU national systems would inevitably lead to conflicts in the course of

⁷ DINWOODIE, DREYFUSS, *A Neofederalist Vision of TRIPS. The Resilience of the International Intellectual Property Regime*, cit., at ix.

⁸ The Directive 98/71/CE has established the principle of cumulation of different IP protections, which allows countries to maintain both their copyright and specific design protection legislation.

⁹ See Proposal for a European Parliament and Council Directive on the legal protection of designs, COM (1993) 344 final (Dec. 3, 1993).

¹⁰ Council Directive 98/71/EC, (1), 1998 O.J. (L289) 28 (EC) [hereinafter Community Design Directive].

trade and competition between the Member States¹¹, so four years later the European Council adopted the Council Regulation 6/2002 on Community Designs¹², which applies to all Member States as binding law and extends protection to both registered and unregistered designs.

1.1. The Community Design Directive

The Community Design Directive required all Member States to provide design with a registered right for five years renewable for up to twenty-five years and it set out the standards for the eligibility for such protection, thus providing a guide for the standard of originality required.

It defined “Design” as “the appearance of the whole or a part of a product resulting from the features of, in particular, the lines, contours, colours, shape, texture, and/or materials of the product itself and/or its ornamentation”¹³ and it excluded protection for “features dictated solely by a technical function”¹⁴.

A design is protectable to the extent that it is new and has individual character¹⁵. Under Article 4 of the Directive, “a design shall be considered new if no identical design has been made available to the public before the date of filing of the application for registration or, if priority is claimed, the date of priority”¹⁶. Under Article 5, “a design shall be considered to have individual character if the overall impression it produces on the informed user differs from the overall impression produced on such a user by any design which has been made available to the public before the date of filing of the application for registration or, if priority is claimed, the date of priority”¹⁷. The duration of protection structured in five-year renewable terms is particularly suited for the fashion industry and its seasonal nature, since it allows the designers to consider whether to invest other money in design protection every five years.

In addition, the Community Design Directive established the important principle of cumulation of different IP protections on designs, considered necessary in the absence of harmonization of copyright law in order to leave

¹¹ See *id.* (“The substantial differences between Member States’ design laws prevent and distort Community-wide competition. In comparison with domestic trade in, and competition between, products incorporating a design, trade and competition within the Community are prevented and distorted by the large number of applications, offices, procedures, laws, nationally circumscribed exclusive rights and the combined administrative expense with correspondingly high costs and fees for the applicant”).

¹² Council Regulation 6/2002, 2002 O.J. (L 3) 5 (EC) [hereinafter Community Design Regulation].

¹³ Council Directive 98/71/EC *supra* note 11, Art. 1.

¹⁴ *Id.*, at (14).

¹⁵ *Id.*, Art. 3.2.

¹⁶ *Id.*, Art. 4.

¹⁷ *Id.*, Art. 5.

Member States that had both copyright and specific design protection legislation free not to choose between the two¹⁸.

However, many issues were left unanswered¹⁹ and since European countries still had different types and levels of design protection, further harmonization was needed.

1.2 The Community Design Regulation

The Council Regulation 6/2002 was adopted to provide more uniform protection throughout the entire territory of the Community, allowing European designers to bypass complex and fragmentary national legislations by means of a European-wide design right, either registered or unregistered²⁰.

The Community Design Regulation has maintained unchanged the definition of “design”²¹ and the requirements²² for its protection set forth in the Community Design Directive. Most importantly, it introduced a new scheme of protection borrowed from the United Kingdom legal system, providing two distinct ways to obtain design protection: a “registered Community design” (“RCD”) and an “unregistered Community design” (“UCD”).

While a RCD and an UCD share both the territorial scope of protection and the requirements for protection, they differ in the rights conferred and the duration of protection²³.

A RCD gives protection for an initial period of five years from the date of filing of the application and is renewable for terms of five years each up to a maximum of twenty-five years²⁴. A design can be marketed for up to twelve months prior to filing for a RCD without losing its novelty²⁵, thus allowing the designer to see if the design is successful enough to balance the costs of registration in order to obtain higher protection. In addition, the EU system allows the applicant to request at the time of filing that the publication of the application

¹⁸ *Id.* at (8).

¹⁹ For example the Directive did not establish whether the copying of spare parts was prohibited or not. See MONSEAU, *The Challenge of Protecting Industrial Design in a Global Economy*, cit.

²⁰ Council Regulation 6/2002 supra note 13, Art. 1.

²¹ *Id.*, Art. 3.

²² *Id.*, Art. 4-6.

²³ See *Registered Community design or unregistered Community design?*, Office for Harmonization in Internal Market, <<https://euipo.europa.eu/ohimportal/en/designs-in-the-european-union>> (last visited January, 10th).

²⁴ *Id.*, Art. 12. Under Art. 13 of Community Design Regulation, a request for renewal must be submitted within a period of six months ending on the last day of the month in which protection ends. If this deadline is missed, the request can be submitted within a further period of six months, provided that an additional fee is paid. Renewal will take effect on the day following the date on which the existing registration expires.

²⁵ *Id.*, Art. 7.

be deferred for up to thirty months in order to keep its design secret until it comes to the market²⁶.

Upon payment of a fee²⁷, the application must be filed at the Office for Harmonization in the Internal Market ("OHIM"), in Alicante, where it is assigned to an examiner who will review it²⁸. If no deficiency is found, the design will be published within three months from the date of filing²⁹. The RCD gives the designer "the exclusive right to use it and to prevent any third party not having his consent from using it"³⁰. The RCD, unlike the UCD, thus extends protection against intentional copying as well as the independent creation of a similar design and in this aspect it differs from both the United Kingdom design law and the U.S. proposals contained in the IDPPPA and the IDPA, since it does not make available to a defendant the innocent infringer defense in the absence of copyright notice.

While the RCD essentially reproduced the same right created by the Community Design Directive, through the UDR the Community Design Regulation introduced a new type of copyright-like protection which arises automatically on the first marketing of the design in the EU.

This solution was adopted as a compromise to provide also those countries that did not protect design through copyright law with a minimum level of protection, since designers from countries that granted protection to industrial design only upon registration, like Italy, were clearly at a disadvantage compared to those from countries, like France, that received automatically lengthy copyright protection³¹. Through the principle of cumulation, Member States were in fact left free to establish whether to protect industrial design by national copyright law and to what extent.

UCD grants protection for a short-term of three years from the date on which the design was first made available to the public within the EU³² in order to ensure designers the first-to-market advantage but limited to the short period considered necessary to fight counterfeiters. Unlike the RCD, the UCD only

²⁶ *Id.*, Art. 50.

²⁷ See *Designs, Fees and Payments*, Office for Harmonization in the Internal Market, <<https://euipo.europa.eu/ohimportal/en/rcd-fees-and-payments>>. ("The fees for registering and publishing one design are €350 for five years' protection. The system is "fee-decreasing" which means that in a multiple application, the fees for the second to 10th design will be 50% of the basic fee each and less than 25% of the basic fee for the 11th design onwards").

²⁸ Council Regulation 6/2002, Art. 45; See *Designs, The Registration Process*, Office for Harmonization in the Internal Market, <<http://oami.europa.eu/ows/rw/pages/RCD/regProcess/regProcess.en.do>>.

²⁹ See *The Registration Process*, Office for Harmonization in the Internal Market, <<http://oami.europa.eu/ows/rw/pages/RCD/regProcess/regProcess.en.do>>.

³⁰ Council Regulation 6/2002, Art. 19. The exclusive right to use specifically includes "the making, offering, putting on the market, importing, exporting or using of a product in which the design is incorporated or to which it is applied, or stocking such a product for those purposes".

³¹ See MONSEAU, *The Challenge of Protecting Industrial Design in a Global Economy*, cit., at 527.

³² Council Regulation 6/2002, art. 11.

provides protection against copying, thus excluding infringement where a second design is independently created “by a designer who may be reasonably thought not to be familiar with the design made available to the public by the holder”³³.

Because the UCD does not require filing an application to obtain protection, it is a beneficial option for emerging designers and small businesses who do not have the resources to register all of their designs³⁴. It may also act as a “bridge” and offer complementary protection to the RCD during the twelve months period of marketing prior to filing for registration.

The effectiveness of unregistered design protection was demonstrated in the case *Karen Miller Ltd v. Dunnes Sores*³⁵, where the European Court of Justice had the chance not only to establish the extent of such protection, but also to interpret and clarify several aspects of the legislation, such as the onus of proof, the definition of an informed user and the criterion of individual character. In deciding whether plaintiff’s design rights on a black knit top, a blue shirt and a brown shirt had been infringed, the court put them side by side with existing designs of other designers and found them to have individual character because they made a different overall impression on an informed user. An informed user was interpreted as “a woman with a keen sense of fashion, a good knowledge of designs...previously available to the public, alert to the design and with a basic understanding of any functional or technical limitations on designs for women’s tops and shirts”³⁶. Since the Court placed on defendant the burden to prove the lack of individual character, the UDR turned out to be a powerful protection against lower-end, ‘fast fashion’ retailers, that must take even grater care when producing similar designs, given the high threshold for challenging the validity of unregistered design rights.

Scholars in favor of low intellectual property protection for fashion design often support their position arguing that the EU regulation is in fact underutilized because of the low number of designs registered in the design registry³⁷ and that, despite the very different level of protection, copying is still a widespread activity in the EU as well as in the U.S.³⁸ A recent article has noted that “the new E.U. unregistered design right is becoming ‘extremely useful for fashion designers,’

³³ *Id.*, art. 19.

³⁴ L. FANELLI, *A Fashion Forward Approach to Design Protection*, 85 St. John’s L. Rev. 285, 304 (2012).

³⁵ *Karen Millen Fashions Ltd v Dunnes Stores, Dunnes Stores (Limerick) Ltd*, C-345/13.

³⁶ *Id.* For a comment on the case see J. DARCY, *Under-Regulated or Under-Enforced: Intellectual Property, The Fashion Industry and Fake Goods*, in *E.I.P.R.*, Issue 2, 2013, 91-92.

³⁷ See K. RAUSTIALA, C. SPRINGMAN, *The Piracy Paradox: Innovation and Intellectual Property in Fashion Design*, 92 Va. L. Rev. 1687, 1742 (2006) (stating that searches in the European Union-wide registry as of June 24, 2006, “yielded 296 designs in the ‘undergarments, lingerie, corsets, brassieres, nightwear’ category; 960 in ‘garments’; 313 in ‘headwear’; 2311 in ‘footwear, socks and stockings’; 197 in ‘neckties, scarves, neckerchiefs and handkerchiefs’; 111 in ‘gloves’; 706 in ‘haberdashery and clothing accessories’; and 14 in ‘miscellaneous’”).

³⁸ *Id.*

prompting a spate of recent suits and settlements”³⁹. The reluctance in registering a design can be explained by the short product life cycle and the fact that designers may want to wait and test market various new designs before deciding which to register. “While fashion trends may come and go in the blink of an eye, some never pass”⁴⁰. They become statement pieces celebrated for generations. Two famous examples are the Hermès “Kelly” Bag, designed in 1956 for Princess Grace Kelly of Monaco, for which today there is a one year waiting list and the Chanel tweed jacket, designed by Coco Chanel in the 1930s, and still sold today for \$5,000. It is at this point that a fashion design needs further protection and filing an application for a registered design may be the best way to prevent others from “free-riding” on the designer’s creative work. However, since by that time a fashion company may have developed a brand strong enough, another reason why designers tend not to register may be that they prefer resorting to other more traditional areas of intellectual property, such as trademark or design patent, which are more consolidated in their application and may lead to greater relief.

The huge success of designs like the Birkin Bag or the Chanel tweed jacket shows that when a fashion company is first set up it has the potential to trade for centuries and it should thus enjoy adequate intellectual property protection⁴¹. Despite all criticisms, the EU Community design right seems to give fashion designers appropriate protection in that it lets them decide when the design is successful enough to justify incurring in the costs and time necessary for registration. The last statistics show that the number of RCD registrations has been continually growing in the last decade up to almost 100,000 in 2016⁴².

1.3. France

Probably due to its reputation as a center of the fashion industry and its concentration of *haute couture* fashion houses, France has had a long history in providing the most comprehensive protection for fashion design⁴³. In fact, French designers have long been provided with both industrial design law and copyright

³⁹ See E. MYERS, *Justice in Fashion: Cheap Chic and the Intellectual Property Equilibrium in the United Kingdom and the United States*, 37 *AIPLA Q.J.* 47, 65 (2009) (citing *IP and Business: Intellectual Property in the Fashion Industry*, WIPO Mag., May-June 2005, at 16 available at <http://www.wipo.int/export/sites/www/wipo_magazine/en/pdf/2005/wipo_pub_121_2005_05-06.pdf>).

⁴⁰ Wipo Magazine, *IP and Business: Intellectual Property in the Fashion Industry* (2005) at 16, available at <http://www.wipo.int/export/sites/www/wipo_magazine/en/pdf/2005/wipo_pub_121_2005_05-06.pdf>).

⁴¹ See DARCY, *Under-Regulated or Under-Enforced: Intellectual Property, The Fashion Industry and Fake Goods*, cit., at 83.

⁴² See <<https://euipo.europa.eu/ohimportal/en/the-office>>. Also, <https://euipo.europa.eu/tunnel-web/secure/webdav/guest/document_library/contentPdfs/about_euipo/the_office/statistics-of-community-designs_en.pdf>.

⁴³ See T. WONG, *To Copy or not to Copy, That is the Question: The Game Theory Approach to Protecting Fashion Designs*, 160 *U. Pa. L. Rev.* 1139, 1149 (2012).

law, thus enjoying a higher level of protection than designers from other Member States, that is the reason why the European legislator adopted the unregistered design right in order to provide some uniform protection.

The French *Code de la Propriété Intellectuelle* provides specific industrial design protection through the “Design and Models” Law⁴⁴, which essentially reproduce the European design right, thus granting protection to designs that are novel and have individual character⁴⁵ for a term of five years renewable up to a total of twenty five years⁴⁶. The real peculiarity of the French legal system is thus copyright protection, as the result of its high regard for fashion as a creative expression worth of being protected: under the unity of art doctrine, there is no distinction between fine and applied arts. Back in 1793 the Copyright Act considered fashion design as applied art and in 1909 it extended protection to non-functional designs and pattern⁴⁷. Now, the *Code* expressly lists fashion design as a copyrightable subject matter⁴⁸ and protection automatically attaches upon creation⁴⁹, regardless of registration⁵⁰. Further, French law gives the designer both moral and patrimonial rights to the design⁵¹. The moral rights ensure the designer the respect of his “name, quality, and work” forever as they pass to his heirs at death and do not terminate⁵². The patrimonial rights give the designer control of the work for financial gain and last for the lifetime of the author plus seventy years thereafter⁵³.

Remedies for infringement of fashion designs include damages and “infringement seizure”, at the request of the author of the work⁵⁴. France has also imposed civil and criminal liability, with fines of 300,000 Euros and a maximum of

⁴⁴ Code de la Propriété Intellectuelle, Book V.

⁴⁵ *Id.* Art. L523-1.

⁴⁶ *Id.* Art. L511-2.

⁴⁷ See A. J. FERRIS, *Real Art Calls for Real Legislation: An Argument Against Adoption of the Design Piracy Prohibition Act*, 26 *Cardozo Arts & Ent. L.J.* 559, 573-74 (2008).

⁴⁸ Code de la Propriété Intellectuelle, Art. L112-2 includes: “Creations of the seasonal industries of dress and articles of fashion. Industries which, by reason of the demands of fashion, frequently renew the form of their products, particularly the making of dresses, furs, underwear, embroidery, fashion, shoes, gloves, leather goods, the manufacture of fabrics of striking novelty or of special use in high fashion dressmaking, the products of manufacturers of articles of fashion and of footwear and the manufacture of fabrics for upholstery shall be deemed to be seasonal industries.”

⁴⁹ *Id.* Art. L111-1 (“The author of a work of the mind shall enjoy in that work, by the mere fact of its creation, an exclusive incorporeal property right...”) Code de la Propriété Intellectuelle.

⁵⁰ See *id.* Art. L111-2 (“A work shall be deemed to have been created, irrespective of any public disclosure, by the mere fact of realization of the author’s concept”) Code de la Propriété Intellectuelle.

⁵¹ E. YAO XIAO, *The New Trend: Protecting American Fashion Designs Through National Copyright Measures*, 28 *Cardozo Arts & Ent. L.J.* 414 (2010).

⁵² Code de la Propriété Intellectuelle, Art. L121-1.

⁵³ *Id.* Art. L123-1.

⁵⁴ *Id.* Art. L332-1.

three years of jail, that can increase to 750,000 Euros and a maximum seven-year jail sentence if the infringer is a criminal organization⁵⁵.

Another important aspect is the care with which French courts have traditionally handled infringement of fashion design and this has allowed French designers to successfully sue American and foreign designers under French law. The most famous example is perhaps the black tuxedo dress case *Yves Saint Laurent v. Ralph Lauren*⁵⁶ in 1994, in which the French maison sued its American competitor on the grounds of design infringement, copyright infringement and unfair competition. The alleged copying concerned a long black tuxedo dress created by YSL in 1970 and become so successful to be repeated in a later collection in 1992. The design was registered by YSL under the French Law on Designs and Models in 1970 and YSL claimed it was also entitled to copyright protection because of its unique cut and features. YSL alleged that the availability on the market of a replica dress as readywear depreciated its couture value, since “it frequently happens that the clientele for haute couture models buy deluxe readywear models while clientele for readywear seldom buy couture models”⁵⁷. The Ralph Lauren’s dress featured in the French magazine *Jours de France Madame* had the same black satin lapel and front buttons, the same long shape and the same uncovered back. Ralph Lauren could not prove design registration or produce atelier drawings of the dress.

The commercial court found in favor of YSL on all grounds and awarded the French house an injunction and FFR 2.2 million (Euro 335,387.84) in damages not only for the depreciation of the dress but also for the cost of the creation of the design and the cost of building couture know-how⁵⁸. The decision well illustrates the attention paid by French courts to the specific needs and functioning of the fashion industry and the importance of judges’ understanding of its peculiarities in applying the law.

This rigorous approach to intellectual property protection for fashion design has been credited for the strength and prominence of the French fashion industry⁵⁹ and shows that a higher level of intellectual property protection does indeed benefit fashion designers without stifling innovation and creativity.

1.4 Italy

Protection of industrial design in Italy is the result of the combination of different schemes of IP protection, whose interactions have sometimes shifted in

⁵⁵ *Id.*, Art L335-2, modified by law n. 731/2016.

⁵⁶ *Yves Saint Laurent v. Ralph Lauren*, Tribunal de Commerce Paris, May 18, 1994 E.C.C. 512. See DARCY, *Under-Regulated or Under-Enforced: Intellectual Property, The Fashion Industry and Fake Goods*, cit., at 90-91.

⁵⁷ Logeais, *France—Fashion*, in *E.I.P.R.*, 1994, D-196, 196-197.

⁵⁸ FERRIS, *Real Art Calls for Real Legislation: An Argument Against Adoption of the Design Piracy Prohibition Act*, cit., at 571.

⁵⁹ WONG, *To Copy or not to Copy, That is the Question: The Game Theory Approach to Protecting Fashion Designs*, cit., at 1150.

the course of recent legislation creating a quite intricate regime. Under Italian law, the external features of a product may be protected by:

- Designs and Models;
- Shape Marks (registered or unregistered);
- Copyright;
- Unfair Competition.

The Italian system of industrial design protection may actually be split in a pre-EU legislation regime and a post-EU legislation regime, since upon adoption of the Community Design Directive 71/98/CE and the Community Design Regulation 6/2002, and Italian consequent obligations of its implementation, it went through a real revolution⁶⁰. The standard of creativity required for protection changed together with the approach towards aesthetic creations and the intersection between design law and copyright law was overturned with important implication for fashion and other design industries.

Before the Community Design Directive, two-dimensional and three-dimensional shapes were regulated by the r.d. 1411/1940 (Legge Modelli), which under Article 5 provided patent-like protection for designs and models “capable of conferring on certain industrial products a special ornamental character by virtue of shape or by a particular combination of lines, colors or other features”⁶¹. The special ornament requirement functioned as the distinguishing element between patent-like protection for the most innovative aesthetic creations and protection against unfair competition for less innovative but distinctive shapes that identified designer’s products on the market⁶².

After the Community Design Directive, there was a shift from a *patent approach* to a *market approach*, where the creation is not longer protectable for its contribution to the aesthetic progress of industrial products, but purely and simply for the fact of affecting the outward appearance of the product, regardless of its aesthetic value⁶³. Under this new approach, the design, considered as a tool of creative marketing, somehow shifted to the trademarks sphere. This also explains why there is no reason to question the possibility of cumulation between a registered design or model and a shape mark, although the exclusion from trademark protection of shapes that give “substantial value” to the product significantly reduces the compass of cumulation between the two types of protection⁶⁴.

⁶⁰ See P. AUTERI, G. FLORIDIA, V. MANGINI, G. OLIVIERI, M. RICOLFI, P. SPADA, *Diritto industriale-Proprietà Intellettuale e Concorrenza*, IV ed., Giappichelli, Torino, 2012, p. 309 ss.

⁶¹ Royal Decree N. 1411 of 25 August, 1940, art. 5 [Legge Modelli].

⁶² See A. FITTANTE, *La Nuova Tutela dell’Industrial Design*, Giuffrè, Milano, 2002.

⁶³ See FLORIDIA et al., *Diritto industriale-Proprietà Intellettuale e Concorrenza*, cit., at 311. See also A. VANZETTI, *Codice della proprietà industriale*, cit., at 575.

⁶⁴ Under art. 9 of the Italian Industrial Property Code (the ‘IPC’), the other exclusions from shape marks registration apply “if the shape consists exclusively of a shape which results from the nature of the goods themselves and if the shape is necessary to obtain a technical result” (in this last case protection is provided by patent for utility model).

Under the new regime, the Italian Law on Models and Designs essentially replicates the EU regulation⁶⁵. Under Article 31 of the Italian Industrial Property Code, “it is possible to register as designs and models the appearance of the whole or a part of a product resulting from the features of, in particular, the lines, contours, colors, shape, texture, and/or materials of the product itself and/or its ornamentation, so long as they are new and have individual character”⁶⁶. The national law thus contains the same definition of design and the same requirements for protection; it also provides the same extent and duration of protection⁶⁷. The two main innovations compared to the previous legislation are the substitution of patent-like protection by a copyright-like protection through the requirement of registration and the abolition of the special ornament requirement.

Another major innovation produced by the EU legislation is the passage from the principle of non-cumulation to the principle of cumulation between design law and copyright law. Under the old Models Law, there was a strict rule of exclusion that prevented the application of copyright law to models and designs⁶⁸. This rule found its rationale in the different scope of protection attached to the two regimes: models and designs law was meant for applied art, whereas copyright law was for artistic expression independently of its incorporation in an industrial product⁶⁹.

From a practical perspective, the legislator also wanted to avoid the more favorable copyright protection, lengthy and inexpensive, to supersede the less favorable design protection through registration. The test as to whether an object was protectable by design law or copyright law was established in the “*inscindibili doctrine*”: two-dimensional and three-dimensional shapes were afforded copyright protection, and even the industrial applications of such works, “provided that their artistic value is separable from the industrial nature of the product with which they are associated”⁷⁰.

Since they were subject to a strict interpretation, three-dimensional shapes were hardly extended copyright protection because not considered conceptually separable from the utilitarian function of the product itself. Famous is the case where the Italian Supreme Court denied copyright protection to the well-known “Chaise-Lounge” armchair produced by Le Corbusier. Despite the great success of its design and the fact that it was designed by famous and high-regarded

⁶⁵ Italy transposed the EU Directive 71/98/CE with d.lgs. February 2, 2001, n. 95, later incorporated in the Codice della Proprietà Industriale, enacted by d.lgs. February 10, 2005, n.30.

⁶⁶ IPC, Art. 31. The novelty and individual character requirements are defined respectively in art. 32 and art. 33 of the IPC.

⁶⁷ See IPC, art. 37 and art. 41.

⁶⁸ R.D. n. 1411/1940, art. 5 (“The provisions relating to copyright shall not apply to the abovementioned designs.”)

⁶⁹ See FLORIDIA et al., *Diritto industriale-Proprietà Intellettuale e Concorrenza*, cit., at 334. See also D. CRESTI, *La Protezione dell’Industrial Design tra Tutela Brevettuale e Diritto di Autore, Contr. e impr. Europa*, 2005; A. FITTANTE, *La Nuova Tutela dell’Industrial Design*, Giuffrè, Milano, 2002.

⁷⁰ Law No. 633 of April 22, 1941, Protection of Copyright and Other Rights Related to the Exercise thereof, art. 2.

designers, the Court found the artistic value of the product not to be separable from its industrial application⁷¹. However, the Community Design Directive, in order to leave Member States that had both copyright and specific design protection legislation free not to choose between the two, established the principle of cumulation of the different types of protection⁷², leaving to the States the determination of the scope and the conditions of such protection.

With its law of implementation of the EU directive⁷³, the Italian legislator abolished the requirement of “separability” and added to the list of copyrightable subject matters under Article 2 of the Italian Copyright Law a new point 10 for protection of “industrial designs which possess in themselves creative character and artistic value”⁷⁴. The “creative character” is a general requirement for all copyrightable works⁷⁵ and requires an higher level of creativity than the “individual character” requirement in design law, through an original expression of the author’s personality. The “artistic value”, which is required only for designs, poses instead a higher stake, that can be satisfied only by high-end designs, whose artistic and aesthetic qualities have been widely recognized by cultural and institutional circles⁷⁶. Factors considered by Italian courts to establish whether a design presents such an artistic value include the display in museums and exhibitions, publication in specialized journals, the sale on the art market for a higher price than its commercial value, awards and other acknowledgements⁷⁷.

Since the requirement of artistic value is quite difficult to prove, fashion items had never received copyright protection until now. However, in 2016 the Court of Milan regarding the well known Moon Boots found that they “attain the characteristics of a creative work, having the artistic value required by Art. 2 no. 10 of the copyright law, in view of their particular aesthetic impact, which, at the time of their appearance on the market, profoundly changed the very aesthetic concept of après-ski boots, becoming a true icon of Italian design”⁷⁸. In reaching this decision, crucial was the fact that the Moon Boots had been displayed at the Louvre Museum because considered one of the top 100 international most iconic design of the 20th century. This decision is particularly important because if upheld on appeal, it opens to new developments with respect to copyright protection for fashion items.

⁷¹ Cass., sent. del 7 dicembre 1994, n. 10516. For the different interpretation after the Directive 71/98 see Trib. Monza, 15 luglio 2008, in *Giur. ann. dir. ind.*, 2008, 1000 or in *Dir. ind.*, 2008, 581, commented by D. DE SAPIA.

⁷² See *supra* note 18.

⁷³ See *supra* note 65.

⁷⁴ Law 633/1941, art. 2(10).

⁷⁵ Law 633/1941, art 1.

⁷⁶ See FLORIDIA et al., *Diritto industriale-Proprietà Intellettuale e Concorrenza*, cit., at 335.

⁷⁷ *Id.*

⁷⁸ Trib. Milano, 5 June 2016, unpublished. See E. VARESE, BARABINO S., in B. POZZO, V. JACOMETTI (a cura di), *Fashion Law - Le problematiche giuridiche della filiera della moda*, Giuffrè, Milano, 2016.

The introduction of the principle of cumulation in the absence of a EU provision expressly referring to protection, for third parties, of acquired rights and legitimate expectations in relation to the revival of copyright protection, however, created an unfortunate problem of duration of the new copyright protection. Because in the lack of copyright protection and under the short term of registered design protection many designs had fallen in the public domain, it became common in Italy to reproduce copies of past successful designs, especially in the furniture industry. A retroactive application of the principle of cumulation would have made this activity unlawful. This new scheme of protection therefore opposed two conflicting interests: on one hand, the interest of creators of works now copyrightable to be provided with such protection, on the other, the interests of third parties acting in good faith who had relied on the availability of the designs in order to produce or market products on the basis of those designs and their legitimate expectation to continue their business⁷⁹.

At first, the Italian legislator found to balance those opposing interests providing a limited duration of copyright protection for twenty-five instead of seventy years after the author's death⁸⁰. This solution, however, was attacked on two grounds: first, under a legal perspective, it clashed with the ordinary term of copyright protection (author's lifetime plus seventy years after his death) set forth in the EU Directive 93/98/CE on Copyright; second, under a practical perspective, even the reduced protection for twenty-five years was long enough to shut down most of the businesses involved.

Soon after it introduced, as a transitional provision, a 10-year moratorium starting on 19 April 2001 (the date when the new legislation implementing the EU Directive entered into force), during which copyright protection "shall not be enforceable as against those persons who engaged before that date in the manufacture, supply or marketing of products based on designs that were in, or had entered into, the public domain"⁸¹. Sadly, the problem of compliance with the EU Directive remained and indeed a procedure of infraction against Italy was started by the European Commission⁸².

The Italian legislator thus in 2007 intervened again, but indeed it made the situation even worse. It overruled the retroactive application of the new regulation, establishing copyright protection only for those works created after its

⁷⁹ See A. SIROTTI GAUDENZI, *Proprietà intellettuale e diritto della concorrenza – Volume V: La riforma del codice della proprietà industriale*, Utet, Torino, 2010, 50.

For a good summary of Italian attempts to find this balance see <<http://www.diritto24.ilsole24ore.com/avvocatoAffari/mercatoImpresa/2013/04/codice-di-proprietà-art-239-e-periodo-di-sell-off-per-le-copie-delle-opere-di-design-tutelate-dal-diritto-d-autore-.php>>.

⁸⁰ Legislative Decree No 95 of 2 February, 2001, implementing EU Directive 98/71. It entered into force on 19 April, 2001.

⁸¹ Legislative Decree No 164 of 12 April, 2001, implementing Directive 98/71, inserted Article 25a into Legislative Decree No 95/2001. That provision was subsequently restated in Article 239 of the Italian Industrial Property Code (the 'IPC'), which was adopted in 2005. See A. FITTANTE, *Industrial Design: Durata ed Entrata in Vigore*, in *Il Diritto Industriale*, 2007, III, 213.

⁸² Infringement procedure n. 4088/2005.

enactment⁸³. Moreover, it did not consider whether the activity of reproduction started before the new regulation or not, thus extending protection also to those who operated after April 19th, 2001, so long as the works they copied were in the public domain. There was this way an imbalance in favor of copyists to detriment of creators and compliance with the EU legislation was even more questioned⁸⁴.

New action was then taken in 2009 with a partial return to the pre-use principle, but without a temporal limitation⁸⁵, so allowing copyists to continue their activity also in the future. The year after, article 239 of IPC was modified again⁸⁶: copyright protection was extended to works created before April 19th, 2001, but businesses that before that date engaged in some legitimate copying activity were granted a right of pre-use for five years until April 19th, 2006.

Meanwhile, a decision of the European Court of Justice (case C- 168/09 *Flos v. Semeraro*)⁸⁷ clarified some points:

- a. First, it distinguished between designs which were in the public domain because they had not been registered as designs and designs which entered the public domain because the protection deriving from registration ceased to have effect. The court held that under article 17 of the Directive 98/71/CE only designs that were previously registered in accordance to that directive could received national copyright protection by virtue of the directive. Unregistered designs, instead, did not fall within the scope of article 17 of the directive and could potentially be granted copyright protection under other directives concerning copyright, in particular Directive 2001/29/CE, if the conditions for that directive's application are met.
- b. Second, it pointed out that leaving to Member States to determine the extent to which, and the conditions under which, national copyright protection is conferred does not mean that they have a choice as to whether or not to confer such protection. This is made clear also by recital 8 in the preamble to Directive 98/71, affirming the principle of cumulation of protection under specific registered design protection law and under copyright law.
- c. Third, it clarified that leaving to Member States to determine the extent of copyright protection and the conditions under which it is conferred cannot affect the term of that protection, since the term has already been harmonised at European Union level by Directive 93/98.

⁸³ Article 4(4) of Decree-Law No 10 of 15 February, 2007 implementing European and international obligations, converted into a law by Law No 46 of 6 April, 2007, abolished the 10-year moratorium introduced by Legislative Decree No 164/2001, amending Article 239 of the IPC.

⁸⁴ See A. FITTANTE, *Classici del Design e Tutela del Diritto d'Autore*, in *Il Diritto Industriale*, 2011, III, 252. See also G. FLORIDIA, *Quando non si riesce a motivare: la tutela del diritto d'autore delle opere di industrial design fra giurisprudenza comunitaria e nazionale - Il commento*, *Il Diritto Industriale*, 2012, I, 25.

⁸⁵ Law n. 23 July, 2009, n. 99 (Made In Italy Law).

⁸⁶ Legislative Decree No. 131 of 13 July, 2010, art. 123.

⁸⁷ *Flos SpA v. Semeraro Casa e Famiglia SpA*, C-168/2009.

- d. Finally, the court concluded that the fact that Directive 98/71/CE does not contain express provision concerning the protection of the acquired rights and legitimate expectations of third parties does not preclude application of those principles, which are “among the fundamental principles of European Union law”⁸⁸. It thus established that “the assessment of the compatibility of the length of a transitional period and of the category of third parties covered by the legislative measure must be carried out in the light of the principle of proportionality”⁸⁹. Under this principle, the court held the 10-year moratorium to be too long, finding that the transitional period provided by Italian law should ensure that “the period of use of the designs by those third parties is limited to what is necessary for them to phase out the part of their business that is based on earlier use of those designs or to clear their stock”⁹⁰.

Despite the clear position of the EU, in 2011 Italian copyright law was modified again to extend the moratorium of art 239 of IPC from five years to thirteen years from the date of entry into force of the national legislation transposing Directive 98/71, which means until 19 April, 2014⁹¹. The total disregard of the ECJ decision was motivated by the Italian Government with the need, in a period of economic crisis like that by which Italy was affected, to support local businesses that have been working in the field for years and to avoid even more catastrophic effects on the nation economy caused by their shutdown⁹². Italian courts have, however, disregarded this last provision, considered not in compliance with EU law after the case C- 168/09⁹³. The 13-year grace period has now expired and it is desirable that the Italian legislator takes a final and compliant position.

Even if quite intricate and complex to understand, I believe this excursus on Italian implementation of the principle of cumulation to be important on two different grounds: first, it shows how difficult can be to find an appropriate system of intersection between specific design protection and copyright protection, and to shift from one system to another. Secondly and in a way related, it illustrates in an effective manner the hurdles that single States may encounter in adapting their legal system to supranational law, either European or International law, since it might burden them with obligations that do not consider their territorial needs. It is definitely true that in a global economy there is need of uniform rules of protection, but it is also true that the law is quintessential territorial expression of the cultural, intellectual and economic aspirations of a nation. It is therefore

⁸⁸ *Id.* at 50.

⁸⁹ *Id.* at 56.

⁹⁰ *Id.* at 59.

⁹¹ Art 22-bis of Decree-Law No. 216 of 29 December 2011, converted into a law by Law No 144/2012.

⁹² See the comment of Representative O. Nannicini in <<http://www.ipinitalia.com/disegni-e-modelli/un-altro-nuovo-239-cpi-nel-ddl-di-conversione-del-milleproroghe/>>.

⁹³ See for example Trib. Milan 20 July 2012, case *Cassina High Tech*, and Trib. Milan 13 September 2012, case *Vitra High Tech*.

important not to ignore these peculiarities, but possibly integrate them at an international level in order to avoid distortions of national legal systems⁹⁴.

The Italian framework of design protection is completed by two institutions specifically designed for the fashion industry, that are the Design Jury and the Fashion Mediation Association. The Design Jury was created in 1992 by the Association for Industrial Design (ADI) and Confindustria and is made up of twelve experts in the fashion industry: two producers and a designer appointed by Confindustria, two producers and a designer representative chosen by ADI, three lawyers and a substitute lawyer, an expert on market problems and an expert on consumer problems⁹⁵. The Jury aims to ensure that the creations of industrial design are made with original performance, not imitations or unfair conduct and it is based on a Self-regulatory Code, which is binding for those who signed it. The Design Jury is a private law body and although its decisions are not binding before ordinary judges, they still express authoritative opinions with great persuasive power also on the market actors⁹⁶. It provides designers with a valid option of costs and time savings while having a panel of industry insiders.

The Fashion Mediation Association was recently created by some Italian fashion companies (Gucci, Versace, Valentino) for the purpose of resolving disputes between those operating in the fashion industry. It offers a voluntary civil mediation using mediators with expertise in the fashion industry, who can handle civil and commercial, national and international disputes⁹⁷. The FMA represents a unique Italian creation, sign of Italian traditional attachment to the fashion industry. Since the mediation process provided by the FMA is quick and with a guarantee of privacy, highly relevant in this field, it well suits the needs of the fashion industry, often enabling the parties also to maintain good business relations for the future⁹⁸.

1.5 United Kingdom

The United Kingdom extends copyright protection to fashion design as a type of artwork so long as it relates back to the original sketch. Under the Copyright, Designs, and Patents Act of 1988 ("CDPA"), a design is defined as "any aspect of the shape or configuration...of the whole or part of an article"⁹⁹ and in order to be protectable it must be "recorded in a design document or an article has been made to the design"¹⁰⁰.

⁹⁴ See the concept of "integration" in DINWOODIE, DREYFUSS, *A Neofederalist Vision of TRIPS. The Resilience of the International Intellectual Property Regime*, cit.

⁹⁵ See <<http://www.adi-design.org/design-jury.html>>.

⁹⁶ *Id.*

⁹⁷ See <<http://www.fashion-mediation.org/en>>.
See also <<http://blogs.dlapiper.com/ipitaly/?p=55720>>.

⁹⁸ *Id.*

⁹⁹ Copyright, Designs and Patents Act, 1998, c.48, at §213(2) [hereinafter CDPA].

¹⁰⁰ *Id.* at §213(6).

Unlike French and Italian law, British law provides a quite different regime for registered and unregistered designs and is thus closer to the EU system. Like in the other Member States, the national registered design right essentially follows the RCD of the Community Design Directive: it is the total right of ownership to the appearance of a product or part of a product and it provides the designer with an exclusive right of use, which last from five up to twenty-five years. Unchanged are also the requirements of novelty and individual character. However, scholars have noted that, because of “the complex and unclear law and registration requirements”, designers in the United Kingdom rather prefer the unregistered right¹⁰¹.

The UK unregistered design right (UDR) was introduced to deal with the problem of non-cumulation in the British legal system¹⁰². In fact, under British law a design could be protected by either the patent-like protection of the registered design right, or copyright law through the possibility to claim copyright infringement of two-dimensional drawings by a three-dimensional object. This resulted in the anomaly that designs which had eye appeal and therefore some artistic merit were denied copyright protection since they were protected by design law, whereas purely functional designs were granted full copyright protection¹⁰³.

In order to abolish the advantages of a lengthy and inexpensive derivative copyright protection for drawings on commercially exploited objects, the British legislator thus introduced a new copyright-like sui generis protection for all original designs, which will then form the basis of the new EU regime of design protection under the Community Design Regulation. Under the CDPA, therefore, an unregistered design right could coexist with a registered design right, but not with copyright over industrial production of shaped items, because when copyright is available it displaces the UDR.

The UDR provides automatic protection for the designs of the “shape and configuration”¹⁰⁴ of an item and therefore, unlike the registered design that can protect also pattern and ornament, it relates only to the three-dimensional aspects of its design, regardless of its aesthetic appeal: the design may thus be purely functional. According to its nature of copyright-like protection, originality is required in order to be granted UDR, which means that the design must be independently created and not “commonplace” in the design field in question at the time of its creation¹⁰⁵.

The unregistered design “is not a total right of design ownership” and it does not grant the designer exclusive use; it only protects against copying¹⁰⁶. It

¹⁰¹ E. MYERS, *Justice in Fashion: Cheap Chic and the Intellectual Property Equilibrium in the United Kingdom and the United States*, 37 *AIPLA Q.J.* 47, 63 (2009).

¹⁰² See MONSEAU, *The Challenge of Protecting Industrial Design in a Global Economy*, cit., at 528.

¹⁰³ See MYERS, cit.

¹⁰⁴ CDPA, §213(2).

¹⁰⁵ *Id.* at §213(6).

¹⁰⁶ *Id.* at §233.

automatically protects the design for ten years after it was first sold or fifteen years after it was created - whichever is earliest¹⁰⁷. Under this last aspect, the UK UDR has been deemed to provide an excessive duration of protection, especially in comparison with the EU UDR that lasts only three years, which are believed to be well suited for a fast moving industry like fashion is¹⁰⁸.

The possible remedies are damages, injunctions, accounts or any other remedy available to the plaintiff for the infringement of any other property right¹⁰⁹, but available to the alleged infringer is the innocent infringement defense¹¹⁰. In addition, criminal liability arises if the offender had knowledge of the infringement of a copyrightable work¹¹¹. The maximum jail term is six months for summary convictions and ten years for indictments¹¹².

2. THE UNITED STATES

“Over the past three years, the parties have put in countless hours and spent untold sums of money, all in the service of fashion – what Oscar Wilde aptly called “a form of ugliness so intolerable that we have to alter it every six months [...] It is my hope that this ugliness will be limited to the runway and shopping floor, rather than spilling over into the courts”¹¹³.

I believe this quote from Judge Scheindlin in the *Gucci v. Guess* case well summarizes the position of the United States towards fashion, considered an ephemeral and frivolous phenomenon not worth of legal protection. Unlike the countries previously illustrated, in fact, the United States do not provide a specific and comprehensive scheme of protection for fashion design. Instead, they offer what has been defined a “patchwork of protection”¹¹⁴. In order to receive relief from copying, American designers must rely on the existing areas of trademark, patent and copyright law. However, each of these systems presents shortcomings for a plaintiff fashion designer.

¹⁰⁷ *Id.* at §216.

¹⁰⁸ See MONSEAU, cit., at 528.

¹⁰⁹ CDPA, at § 229(2).

¹¹⁰ *Id.* at § 233.

¹¹¹ *Id.* at § 107(1).

¹¹² *Id.* at § 107(4).

¹¹³ *Gucci America, Inc. v. Guess?, Inc.*, 858 F.Supp. 2d 250 (S.D.N.Y. 2012), quote of U.S. District Judge Shira Scheindlin.

¹¹⁴ See S. SCAFIDI, *Intellectual Property and Fashion Design* (describing the interplay of different forms of intellectual property protection for fashion designers), in 1 *Intellectual Property and Information Wealth* 115, 121 (Peter K. Yu ed., 2007).

2.1 Copyright

The U.S. Supreme Court first considered whether to protect applied art under copyright law in the *Mazer v. Stein* case¹¹⁵ in 1954, where it found that a lampbase design in the form of a Balinese dancer was eligible for copyright protection. In the court's view there was "nothing in the copyright statute to support the argument that the intended use in the industry of an article eligible for copyright bars or invalidates its registration"¹¹⁶. The Court thus seemed to embrace the unity of art doctrine, with no distinction between applied and fine art¹¹⁷, adopting a broad interpretation of copyright law. Of a different advice, however, was the Copyright Office, which maintained that design should have been protected under a separate design law.

*"If the sole intrinsic function of an article is its utility, the fact that it is unique and attractively shaped will not qualify it as a [copyrightable] work of art. However, if the shape of a utilitarian article incorporates features, such as artistic sculpture, carving, or pictorial representation, which can be identified separately and are capable of existing independently as a work of art, such features will be eligible for [copyright]"*¹¹⁸.

This last position eventually prevailed in the Copyright Act of 1976, where the Mazer rule was codified very narrowly. Under section 101 of the 1976 Act, "the design of a useful article, as defined in this section, shall be considered a pictorial, graphic, or sculptural work only if, and only to the extent that, such design incorporates pictorial, graphic, or sculptural features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article"¹¹⁹. A "useful article" is defined as "having an intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information"¹²⁰. Under American law, "it is well settled that articles of clothing are 'useful articles' not protected by the Copyright Act"¹²¹. On closer view, the 1976 Act actually took an even more restrictive approach than the Copyright Office's regulation, through the definition of "intrinsic utilitarian function" instead of "sole intrinsic function" and the presumption that "[a]n article that is normally a part of a useful article is considered a 'useful article'"¹²².

¹¹⁵ *Mazer v. Stein*, 347 U.S. 201, 206 (1954).

¹¹⁶ *Id.* at 218.

¹¹⁷ See J. H. REICHMAN, *Design Protection in Domestic and Foreign Copyright Law: From the Berne Revision of 1948 to the Copyright Act of 1976*, 1983 *Duke L. J.* 1143, 1152 (1983).

¹¹⁸ 37 C.F.R. § 202.10(c) (1959).

¹¹⁹ 17 U.S.C.A. § 101 (West 2012.)

¹²⁰ *Id.*

¹²¹ *Jovani Fashion, Ltd v. Fiesta Fashions* (2d Cir. Oct. 15, 1012).

¹²² Copyright Act, 17 U.S.C. § 101 (2000 & Supp. III 2004).

In *Kieselstein-Cord. v. Accessories by Pearl, Inc.*¹²³, the court thus established the test for copyrightability of the original artistic elements to be their “physical or conceptual separability” from the functional elements. However, because of the dominance of the design philosophy of functionalism and its belief that “form follows function”, the test of separability is hardly satisfied¹²⁴. Therefore, under this approach, current copyright protection is available for some elements of fashion, like fabric patterns¹²⁵, jewelry¹²⁶ and pictorial designs imprinted on clothing apparel¹²⁷, while the fashion design itself- such as the shape or “cut” of a sleeve or pant leg- is excluded from protection because it is diffused in the form of the garment itself and concurrently functions as clothing to cover the wearer’s body¹²⁸.

2.2 Trademarks and Trade Dress

Trademark law protects “any word, name, symbol, device, or any combination thereof ... used by a person to identify and distinguish his or her goods from those sold by others”¹²⁹. Thus, trademark law can protect certain elements of a fashion design, such as logos, brand names, or other registered marks, but not the overall design of an item¹³⁰. However, in most apparel items the trademark are placed either inside the garment or subtly exhibited on small portions of it¹³¹. Therefore, for most designer clothing, trademarks do not protect against design piracy. Further, trademark protection is mainly available to

¹²³ *Kieselstein-Cord. v. Accessories by Pearl, Inc.*, 432 F.2d 989 (1980).

¹²⁴ See G. C. JIMENEZ, B. KOLSUN, *Fashion Law: A Guide for Designers, Fashion Executives and Attorneys*, Bloomsbury, 2nd ed., 46 (2014).

¹²⁵ In *Prince Group v. MTS Prods.*, 967 F. Supp. 121, 125 (S.D.N.Y. 1997) the court upheld copyright protection for a shaded polka-dot textile pattern because the shading and color variation satisfied the minimal degree of creativity required. On the opposite, according to the most recent tendency, in *Royal Printex, Inc. v. Unicolors, Inc.*, 91 U.S.P.Q.2D 1439 (C.D. Cal. Jul. 8, 2009) the court denied copyright protection to a fabric with a daisy flower design with a polka-dot background, finding that none of the two designs themselves nor their combination was original enough.

¹²⁶ In *Kieselstein*, the court granted copyright protection for an ornamental belt buckle with independent aesthetic value.

¹²⁷ In *Knitwaves, Inc. v. Lollytogs Ltd.*, 71 F.3d 996 (2d Cir. 1995) the court upheld protection for puffy leaf applied on children’s sweaters. In *Samara Bros. v. Wal-Mart Stores*, 165, F.3d 120,132 (2d Cir. 1998) protection was granted to appliques of strawberries, daisies, hearts and tulips.

¹²⁸ See *Registrability of Costume Designs*, 56 Fed. Reg. 56,530, 56,531 (Nov. 5, 1991).

¹²⁹ 15 U.S.C. § 1127 (2006).

¹³⁰ See 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 Tenn. L. Rev. 163 (2010).

¹³¹ See RAUSTIALA, SPRINGMAN, *The Piracy Paradox: Innovation and Intellectual Property in Fashion Design*, cit., at 1701-1702.

established companies that can take advantage of it by making the display of logos a dominant feature in their designs, while emerging designers cannot count on public identification to maintain a customer base¹³².

Therefore, to obtain protection for the overall design, a fashion designer may have to turn to trade dress, which “originally included only the packaging, or “dressing”, of a product, but in the recent years has been expanded by many Courts of Appeals to encompass the design of a product”¹³³. Thus, a fashion design is protectable as a product design, but the Supreme Court raised the bar for its protection holding that product designs are never “inherently distinctive”¹³⁴ and in order to be protectable they must instead have acquired “secondary meaning”¹³⁵, which means that “in the minds of the public, the *primary significance* of a product feature or term is to identify the source of the product rather than the product itself”¹³⁶.

Like for trademark law, thus, also trade-dress ends up to protect mainly well-known designers whose designs have established “secondary meaning”, while it provides virtually no protection for emerging designers who are new to the fashion industry¹³⁷. In addition, in order to enjoy trade dress protection a plaintiff bears the burden to prove non-functionality¹³⁸. This is an enormous hurdle in that it denies protection to any “useful product feature”¹³⁹ that is necessary for the product’s use or affects the production cost or quality¹⁴⁰. Since the shape and form of an article of clothing are generally considered essential to use or purpose of the product, they generally fall outside the scope of trade dress protection¹⁴¹.

2.3 Design Patent

Design patent protection can be obtained for “any new, original and ornamental design for an article of manufacture”¹⁴². In addition, in order to be patentable, a design must be nonobvious and must not be dictated by functional considerations. Design patent protection lasts fourteen years from the date of issuance and cannot be renewed, so once it has expired the design inevitably

¹³² See FANELLI, *A Fashion Forward Approach to Design Protection*, cit., at 290.

¹³³ *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205, 209 (2000).

¹³⁴ *Id.* at 212.

¹³⁵ *Id.* at 216.

¹³⁶ *Inwood Labs. v. Ives Labs.*, 456 U.S. 844, 851 n.11 (1982) (emphasis added).

¹³⁷ See FANELLI, cit., at 291.

¹³⁸ 15 U.S.C. §1125(a) (2006).

¹³⁹ See *Qualitex co. v. Jacobson Prods. Co.*, 514 U.S. 159, 164 (1995).

¹⁴⁰ *Id.* at 165.

¹⁴¹ See WONG, *To Copy or not to Copy, That is the Question: The Game Theory Approach to Protecting Fashion Designs*, cit., at 1143.

¹⁴² 35 U.S.C. § 171 (2006).

enters the public domain. If the non-functionality requirement presents the same obstacles which characterize copyright law, nonobviousness presents a further roadblock to fashion designers because it requires that the design be so original that nobody else would have thought of it¹⁴³. Given the relatively standard shape and form of articles of clothing and the common industry practice to “quote, comment upon, and refer to prior work”¹⁴⁴, nonobviousness is a particularly burdensome requirement for fashion designers. Moreover, the “novelty” standard of patent law is substantially higher than the “originality” standard of copyright law, since it requires more than the lack of copying and some modicum of creativity, limiting protection only to those designs that have never before been presented, that is are “unanticipated” in the prior art.

Even if a fashion designer can meet the statutory requirements, patent protection presents further procedural obstacles that make it inadequate for fashion protection. Design patents have a lengthy prior review process of approximately eighteen months and it is thus unhelpful for many seasonal or trendy designs that will be off the market before patent is issued¹⁴⁵. However, it can make sense to apply for design patent for certain designs that are likely to live a longer life; it comes thus as no surprise that all major athletic shoe companies routinely register their models¹⁴⁶. Finally, another downside of design patent protection is that filing for application may be overly costly, especially for emerging designers.

2.4. *Sui generis* rights for design industries: semiconductors and vessel hulls

While the US have failed to adopt a general law on industrial design that finally made clear where design fits into the spectrum of intellectual property law, in the last twenty years some actions were taken for three particular design industries to provide them with a tailored protection.

First, with the Architectural Works Copyright Protection Act (AWCPA) of 1990¹⁴⁷ Congress added “Architectural works” to the list of copyrightable subject matters under section 102 of the Copyright Act to comply with the Berne Convention, which imposed protection for building designs and blueprints. Before then, architectural drawings and models were protected under copyright law, whereas designs embodied in actual buildings (“built” architecture) were excluded from such protection and could thus be copied. The AWCPA in granting protection to architectural works defines them as “the design of a building as

¹⁴³ See 35 U.S.C. § 103(a).

¹⁴⁴ HEMPHILL, SUK, *The Law, Culture and Economics of Fashion*, cit., at 1160.

¹⁴⁵ See R. P. MERGES, P. S. MENELL, M. A. LEMLEY, *Intellectual Property in the New Technological Age*, New York, Aspen Publisher (5th ed. 2010).

¹⁴⁶ See JIMENEZ, KOLSUN, *Fashion Law: A Guide for Designers, Fashion Executives and Attorneys*, cit., at 57.

¹⁴⁷ Architectural Works Copyright Protection Act of 1990, Pub. L. No. 101-650, §§ 701-06, 104 Stat. 5089 (codified in scattered sections of 17 U.S.C.).

embodied in any tangible medium of expression, including a building, architectural plans, or drawings”¹⁴⁸. It further limits its scope of protection specifying that “[t]he work includes the overall form as well as the arrangement and composition of spaces and elements in the design, but does not include individual standard features”, such as “common windows, doors and other staple building components”¹⁴⁹.

Second, in 1984 Congress adopted the Semiconductor Chip Protection Act, granting protection for “mask works” that enable the etching onto silicon wafers of the circuitry that make up a microprocessor¹⁵⁰.

Unlike the AWCPA that simply exempted architectural works from the useful article doctrine, this was a new sui generis right granted outside the Copyright Act for this specific industry, considered to require significant investments:

*“The Semiconductor Chip Protection Act of 1984 was an innovative solution to this new problem of technology-based industry. While some copyright principles underlie the law, as do some attributes of patent law, the Act was uniquely adapted to semiconductor mask works, in order to achieve appropriate protection for original designs while meeting the competitive needs of the industry and serving the public interest”*¹⁵¹.

Under the SCPA, a mask work is protected if it is fixed in a semiconductor chip and is original¹⁵². In addition, the requirement that the design must also not be “staple, commonplace, or familiar in the semiconductor industry”¹⁵³ seems to add to the copyright standard of originality the patent-like standard of novelty. Furthermore, unlike copyright law that provides automatic protection, the SCPA is a “conditional” system, where protection is granted upon registration with the Copyright Office or commercial exploitation¹⁵⁴. This sui generis protection lasts ten years and gives the exclusive right to “to reproduce the mask work by optical, electronic, or any other means”¹⁵⁵ and to “import or distribute” a chip for which the protected mask work has been used in production¹⁵⁶.

Third, in 1998 Congress passed The Vessel Hull Design Protection Act (VHDPA), granting boat designers a ten years copyright-like protection for original designs of “useful articles” like watercraft hulls and decks upon

¹⁴⁸ 17 U.S.C. § 101 (2000).

¹⁴⁹ *Id.*

¹⁵⁰ Semiconductor Chip Protection Act of 1984, § 301, 98 Stat. 3347 (2006) (codified at 17 U.S.C. §§ 901-14).

¹⁵¹ *Brooktree Corp. v. Advanced Micro Devices, Inc.*, 977 F.2d 1555 (Fed. Cir. 1992).

¹⁵² 17 U.S.C. § 902(b)(1).

¹⁵³ *Id.* § 902(b)(2).

¹⁵⁴ *Id.* § 904(a).

¹⁵⁵ *Id.* § 905(1).

¹⁵⁶ *Id.* § 905(2).

registration within two years of the date they were made public¹⁵⁷. Protection is limited to “original” designs, which are defined as “the result of the designer’s creative endeavor that provides a distinguishable variation over prior work pertaining to similar articles which is more than merely trivial and has not been copied from another source”¹⁵⁸. The VHDPa protects any element of a hull design “which makes the article attractive or distinctive in appearance to the purchasing or using public...”¹⁵⁹, but also elements strictly utilitarian in function¹⁶⁰. The VHDPa presents some similarities with the EU design law under the originality and the registration requirements, and the fact that Congress expressly used the term “useful article” envisioned a future action to extend such sui generis protection to other design industries.

Together these three acts demonstrate that the useful article doctrine of copyright itself presents no substantial barrier to protection of original fashion designs, since Congress already erased it for architectural works and elided it for semiconductor mask works and boat hulls. With their narrower scope and limited duration of protection, they prove that a tailored sui generis right can balance creativity with practicality, fostering innovation without overly intruding on the business practices. Therefore, the lack of IP protection for fashion design under U.S. law is not prevented by any insurmountable obstacles intrinsic of IP laws, it is simply a policy choice.

2.5 Proposed Legislation: the DPPA, the IDPPPA and the IDPA

Since 1914, Congress has considered more than seventy bills extending copyright protection to fashion design, but none has ever been passed¹⁶¹. It is arguably only in the last fifteen years, however, that the subject became a matter of public concern, object of academic debate and of serious commitment by both Senators and Representatives.

Design rights advocates look at the Vessel Hull Design Protection Act (“VHDPa”) as a “pilot legislation” for a federal design rights program and a model for any further design rights expansion¹⁶² since it is considered flexible enough to

¹⁵⁷ Vessel Hull Design Protection Act, Pub. L. No. 105-304, 112 Stat. 2860 (1998) (codified as amended at 17 U.S.C. §§1301-32 (2000)).

¹⁵⁸ 17 U.S.C. § 1301(b)(1).

¹⁵⁹ *Id.* § 1301(a)(1).

¹⁶⁰ *Id.* § 1301(b)(2).

¹⁶¹ See FERRIS, *Real Art Calls for Real Legislation: An Argument Against Adoption of the Design Piracy Prohibition Act*, cit., at 564.

¹⁶² See O. FISCHMAN AFORI, *Reconceptualizing Property in Designs*, 25 *Cardozo Arts & Ent. L.J.*, 1105 (2008). Afori describes the Vessel Hull Design Protection Act as an example of a sui generis design right, that is an intellectual property right distinct from the traditional forms of copyright, trademark and patent. *Id.* at 1108-9.

extend IP protection to an array of as-yet unprotected creative industries, among which also fashion¹⁶³.

In 2006, the Design Piracy Prohibition Act (“DPPA”) was first introduced into the House of Representatives to amend the VHDPa and extend copyright protection to “fashion designs”. A fashion design is defined as “the appearance as a whole of an article of apparel, including its ornamentation”¹⁶⁴ and “includes original elements of the article of apparel or the original arrangement or placement of original or non-original elements as incorporated in the overall appearance of the article of apparel”¹⁶⁵. The bill further provide that the term “apparel” includes three categories: “(A) article[s] of men’s, women’s, or children’s clothing, including undergarments, outerwear, gloves, footwear, and headgear”; “(B) handbags, purses, wallets, duffel bags, suitcases, tote bags, and belts”; and “(C) eyeglasses frames”¹⁶⁶. The DPPA maintains the VHDPa’s registration requirement, demanding that the applicant registers his design within six months of the public debut and provide “a brief description of the design” to the Copyright Office¹⁶⁷. Protection would last three years rather than the ten years afforded by the VHDPa¹⁶⁸. Under the DPPA, infringement occurs when a protected design is copied, except in three circumstances: (1) “if [the design] is original and not closely and substantially similar in overall visual appearance to a protected design”; (2) “[the design] merely reflects a trend”, defined as “a newly popular concept, idea, or principle expressed in, or as part of, a wide variety of designs of articles of apparel embodying that concept, idea, or principle”¹⁶⁹; or (3) “[the design] is the result of independent creation”¹⁷⁰. The remedies for infringement would be the same provided by the existing copyright law¹⁷¹, but the DPPA tremendously increases the amount of damages and penalties¹⁷², since an infringer could face maximum damages of \$250,000 or \$5 per copy, whichever is greater¹⁷³ and a penalty between \$5,000 and \$10,000 for making a false representation to register a design¹⁷⁴.

¹⁶³ “Critics have observed that the VHDPa could ‘easily be expanded’ to cover industrial design, including ‘automobile body and part designs, furniture designs, and clothing designs.’” R. FRENKEL, *Intellectual Property in the Balance: Proposals for Improving Industrial Design Protection in the Post-Trips Era*, 35 Loy. L.A. L. Rev., 531, 577 (1999) (quoting *Letter from Peter Jaszi of the Digital Future Coalition to Pat Roberts, United States Senator* (Aug. 24, 1998)).

¹⁶⁴ Design Piracy Prohibition Act, H.R. 2196, 111th Cong. §2 (a) (2009). [hereinafter DPPA].

¹⁶⁵ *Id.*

¹⁶⁶ *Id.* at §2 (a)(9) (2009).

¹⁶⁷ *Id.* at §2 (f).

¹⁶⁸ *Id.* at §2 (d).

¹⁶⁹ *Id.* at § 2(a)(10).

¹⁷⁰ *Id.* at § 2(e).

¹⁷¹ See 17 U.S.C. §§ 502-506 (2006).

¹⁷² Compare H.R. 2196, *supra* note 164, at § 2(g), (h) with 17 U.S.C. § 1323, 1327 (2006).

¹⁷³ H.R. 2196, at § 2(g).

¹⁷⁴ *Id.* at § 2(h).

In 2010, Senator Charles Schumer introduced the Innovative Design Protection and Piracy Prevention Act (“IDPPPA”)¹⁷⁵, which under its third and last version is now known as the Innovative Design Protection Act of 2012 (“IDPA”)¹⁷⁶. The IDPPPA and now the IDPA were introduced as alternative bills to the DPPA, which they are similar to in some aspects and different from in others. They all amend Chapter Thirteen of the Copyright Act; they maintain the same definitions of “fashion design” and “apparel”; they require novelty and originality for a design to qualify for protection; and they all provide protection for a term of three years.

In addition, both the IDPPPA and the IDPA introduced some new provisions to the DPPA. The main ones are the lack of a registration requirement¹⁷⁷, the introduction of the “home sewing exception”¹⁷⁸, a different standard of infringement and a heightened pleading standard¹⁷⁹. Under both the IDPPPA and the IDPA, infringement occurs when a protected design has been copied without the design owner’s consent¹⁸⁰, but, unlike in the EU RCD’s system, available to defendant is the innocent infringer defence, when the infringing article was created without knowledge, “either actual or reasonably inferred from the totality of the circumstances,” that a design was protected and was copied from such protected design¹⁸¹.

Further, there is no infringement when the design “is not substantially identical in overall visual appearance” to the protected design or “is the result of

¹⁷⁵ Innovative Design Protection and Piracy Prevention Act, Bill Tracking Report, 109 Bill Tracking S. 3728, 111th Cong. (2nd Sess. 2010) [hereinafter IDPPPA].

¹⁷⁶ Innovative Design Protection Act, Bill Tracking Report, 112-259 Bill Tracking S. 3523, 112th Cong. (2d Sess. 2012) [hereinafter IDPA].

¹⁷⁷ See S. 3728 § 2(f). See S. SCAFIDI, *IDPPPA: Introducing the Innovative Design Protection and Piracy Prevention Act, a.k.a. Fashion Copyright, Counterfeit Chic* (Aug. 6, 2010), <<http://www.counterfeitchic.com/2010/08/introducing-the-innovative-design-protection-and-piracy-prevention-act.html>>; S. 3523 § 2(g). See S. SCAFIDI, *"Fashion Copyright" Bill (IDPA) Headed for Full Senate*, Counterfeit Chic (Sep. 20, 2012), <<http://counterfeitchic.com/2012/09/fashion-copyright-bill-idpa-headed-for-full-senate.html>>.

¹⁷⁸ See S. 3728 at § 2(e)(i), which provides that it is not an act of infringement “for a person to produce a single copy of a protected design for personal use or for the use of an immediate family member, if that copy is not offered for sale or use in trade during the period of protection.” (as reported by S. Comm. on the Judiciary, Dec. 6, 2010). The bill specifies that this exception shall not “be construed to permit the publication or distribution of instructions or patterns for the copying of a protected design.” *Id.* See similarly S. 3523 at § 2(f)(i) (as reported by S. Comm. on the Judiciary, Dec. 20, 2012).

¹⁷⁹ See S. 3728 § 2(g)(e)(1), which provides that a claimant in an action for infringement of a fashion design must plead with particularity facts establishing that: (1) the claimant’s design is a protected fashion design within the meaning of the IDPPPA; (2) the defendant’s design infringes upon the protected design; and (3) the protected design or an image thereof was available in such locations and for such duration “that it can be reasonably inferred from the totality of the surrounding facts and circumstances that the defendant saw or otherwise had knowledge of the protected design.” See similarly S. 3523 at § 2(g)(e)(1).

¹⁸⁰ S. 3728 § 2(e); S. 3523 § 2(f).

¹⁸¹ *Id.*

independent creation”¹⁸². “Substantially identical” is defined as “an article of apparel that is so similar in appearance as to be likely to be mistaken for the protected design and contains only those differences in construction or design which are merely trivial”¹⁸³. In addition, they exclude from the definition of an infringing article illustrations or pictures of a protected design in advertisements, books, periodicals, newspapers, motion pictures, or other similar mediums¹⁸⁴. Moreover, the current version of the bill does not provide for secondary liability¹⁸⁵. Thus, retailers and customers who inadvertently sell or buy infringing designs are shielded from liability.

In addition to all the features it shares with the IDPPPA, the biggest changes introduced by the IDPA of 2012 are a provision requiring detailed written notice to alleged infringers¹⁸⁶ and a 21-day moratorium on commencement of an action after that notice, during which damages won't accrue¹⁸⁷. As to recovery, both the IDPPPA and the IDPA did not include the increased amount of damages established by the DPPA and maintained, instead, recovery equal to Chapter Thirteen of the Copyright Act, that is “\$50,000 or \$1 per copy”¹⁸⁸.

3. INTERNATIONAL LAW

At the international level there are currently four main agreements that are relevant to the protection of fashion design under intellectual property law. Despite the lack of a complete harmonization, an analysis of international law shows the emerging of some areas of agreement on the principles that should govern design law.

3.1 *The Hague Agreement*

The Hague Arrangement Concerning the International Registrations of Industrial Designs¹⁸⁹ was the first international treaty to specifically address industrial design protection. Its purpose, however, was not the harmonization of design laws but solely the creation of a centralized registration process at the international level in order to facilitate registration in multiple states.

¹⁸² S. 3728 § 2(e)(f)(3); S. 3523 § 2(f)(f)(3).

¹⁸³ S. 3728 § 2(a)(10); S. 3523 § 2(a)(11).

¹⁸⁴ S. 3728 § 2(e)(f)(1); S. 3523 § 2(f)(f)(1).

¹⁸⁵ S. 3728 § 2(e); S. 3523 § 2(f).

¹⁸⁶ S. 3523 § 2(e)(d)(1),(2).

¹⁸⁷ S. 3523 § 2(e)(d)(3),(4).

¹⁸⁸ See S. 3718 § 2(g). See S. 3523 § 2(h).

¹⁸⁹ The Hague Arrangement on the International Deposit of Industrial Designs or Models, November 6, 1925, 74 L.N.T.S. 179.

Thus, the Hague System for the International Registration of Industrial Designs provides a practical business solution for registering up to 100 designs in over 66 territories by filing one single international application. The treaty was revised three times and it is now administered by the World Intellectual Property Organization (WIPO)¹⁹⁰. Although the procedure has been simplified, international registration under the Hague Agreement remains unappealing to those countries, like the US, that provide for a substantive review of design applications, since the short term of six months given to a State to refuse protection to a deposited design clashes with their patent approach.

3.2 *The Paris Convention*

The Paris Convention for the Protection of Industrial Property¹⁹¹ was signed in 1883 but only in 1958 was amended to extend its protection to industrial design. At its Lisbon Conference, it provided that all signing states should protect industrial design but it left to the single states to determine the nature, subject matter and conditions of such protection. Therefore, industrial design did not lose its hybrid nature and no harmonization was reached.

3.3 *The Berne Convention*

The Berne Convention for the Protection of Literary and Artistic Works¹⁹² was signed in 1886 and after a long debate in 1948 it extended protection to applied art as result of an awkward compromise. On one side, there were French delegates advocating for their unity of art doctrine and the extension of copyright protection to all original creations without distinguishing between fine and applied arts; on the other side, most of other countries, among which primarily Italy and Germany, that feared the long protection provided by copyright law could eventually have an anticompetitive effect.

As a result, the Brussels Conference established the extension of copyright protection to applied art under the Convention, but it left to the single states the right to define applied art, to establish the duration of its protection and also to create a narrower industrial property regime under the category of “designs and models”¹⁹³. This approach can probably explain the very diversified solutions adopted by different States to provide industrial protection and its lack of harmonization.

¹⁹⁰ <<http://www.wipo.int/hague/en/>>.

¹⁹¹ Paris Convention for the Protection of Industrial Property of 1883.

¹⁹² Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, revised July 21, 1971, amended Sept. 29, 1979, 828 U.N.T.S 221 [hereinafter Berne Convention].

¹⁹³ See REICHMAN, *Design Protection in Domestic and Foreign Copyright Law: From the Berne Revision of 1948 to the Copyright Act of 1976*, cit., at 1161-1164.

3.4 The TRIPS Agreement

The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)¹⁹⁴ was signed in 1994 during the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) with the purpose to “establish minimum levels of [intellectual property] protection” among members of the World Trade Organization (WTO)¹⁹⁵. The TRIPS Agreement is probably the most relevant agreement for international industrial design protection on a two-fold ground: first, since it is binding on all WTO members, it covers the largest number of countries and has a broader scope of protection; second, it is the only agreement to provide some direction on the type of protection. In addition, TRIPS introduced a new judicial system through the Dispute Settlement Body (DSB) and the Appellate Body (AB) for proceedings against member states that fail to meet their obligations.

With respect to design protection, Article 25 of TRIPS provides for “the protection of independently created industrial designs that are new and original” and requires member states to protect them from copying for a minimum term of ten years under either industrial design law or copyright law¹⁹⁶. Once again, the standard of creativity was not set and the type of protection not outlined, but minimum standards have been established. The TRIPS Agreement by requiring protection against copying for a minimum of ten years and rejecting a full copyright approach, is the proof that a shorter sui generis protection is becoming the international standard of intellectual property protection for industrial design¹⁹⁷.

This should thus be the path for those States like the United States that do not have a specific legislation on this subject yet.

¹⁹⁴ Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Annex IC, Legal Instruments--Results of the Uruguay Round vol. 31 (1994), arts. 25-26, 33 I.L.M. 1197, 1207 (1994) [hereinafter TRIPS].

¹⁹⁵ TRIPS, pmb. 2.

¹⁹⁶ TRIPS, art. 25.

¹⁹⁷ See MONSEAU, *The Challenge of Protecting Industrial Design in a Global Economy*, cit., at 523.

II. FASHION DESIGN AND INTELLECTUAL PROPERTY LAW: A COST-BENEFIT ANALYSIS

“The question of legal protection for fashion design poses the central question of intellectual property: the optimal balance between, on the one hand, providing an incentive to create new works, and on the other hand, promoting the two goals of making existing works available to consumers and making material available for use by subsequent innovators”¹⁹⁸. Although economic literature on this point is still scarce, this Chapter aims to come up with an economic analysis which explains why copying is harmful and why legal protection is needed in order to give designers incentives to innovate.

1. WHAT IS FASHION?

The premise necessary to analyze the effects that copying has on fashion and why it should be prevented is understanding exactly what fashion is and how it has developed through the time, since this is going to affect the value consumers attach to it and the direction toward which designers decide to innovate.

Today it is widely accepted that fashion cannot be oversimplified as to represent only material or physical needs, for example when an old pair of jeans gets holes from wear or the season turns into cold weather, but it is rather an elusive phenomenon, which gives added value to tangible products such as clothing and only exists in the people’s imagination and beliefs¹⁹⁹. People are wearing clothes, but they believe or wish to believe that they are consuming fashion and not purely clothing²⁰⁰. As such, fashion is a social and cultural phenomenon and, although thinkers in a wide range of fields have written on what fashion is and how it does come to existence, the most thorough analysis comes from the social sciences.

The most influential and well-established theory, positing fashion as having a status-conferring function, dates back to the nineteenth century classic work of the American sociologist and economist Thorstein Veblen, *The Theory of the Leisure Class*²⁰¹, which in turn inspired the German sociologist George Simmel and the American economist Harvey Liebenstein in the upcoming century. According to this view, fashion is described as a form of “conspicuous consumption”²⁰², determined not only by the product’s functional qualities, but

¹⁹⁸ HEMPHILL, SUK, *The Law, Culture and Economics of Fashion*, cit., at 106.

¹⁹⁹ See J. FINKELSTEIN, *After a Fashion*, Melbourne University Press, 1996.

²⁰⁰ J. WU, *Intellectual Property Protection and its Influence on Innovation and Creativity- Evidence From the Fashion Industry*, preliminary draft, International Max Plant Institute (Feb 2013).

²⁰¹ T. VEBLEN, *The Theory of the Leisure Class*, (Dover Publ’n 1994) (1899).

²⁰² *Id.*

also by “positional” factors, in order to express wealth and exclusivity. “Positional goods are bought because of what they say about the person who buys them. They are a way for a person to establish or signal their status relative to people who do not own them: fast cars, holidays in the most fashionable resorts, clothes from trendy designers”²⁰³. Liebenstein went then more into the detail and observed three models of consumer behavior as applied to a nonfunctional demand like that of fashion: the snob effect, the bandwagon effect, and the Veblen effect²⁰⁴. Under the snob effect, consumers seek exclusivity through goods that are not widely popular (regardless of price) and will buy less of them once they pass from elite to mass products. On the opposite, under the bandwagon effect preference for a good increases with the increasing of the number of people buying it and eventually Veblen goods are status symbols that consumers buy because of their high price to signal their wealthy status.

According to this view, fashion is thus seen as a trickle-down process, moving from the highest to the lowest class and characterized by the need of isolation on one hand, that is the desire of the higher classes to set them apart as an elite group, and the need of union on the other hand, that is the attempt of the lower classes to emulate the upper classes by means of external class markers²⁰⁵. “Hence change in fashion is endlessly propelled by the drive to social stratification on the one hand and to social mobility on the other”²⁰⁶. However, this social status theory is too simplistic because it assumes the drive of fashion to necessarily be imitation of high-status people per se and it fails to take into account people’s need to express their individual preferences and personalities through a personal style.

As a direct critique of the trickle-down process, the other major theory about fashion was developed, which goes under the name of “zeitgeist” or also “collective selection” and is usually associated with the sociologist Herbert Blumer. According to this approach, fashion comes into existence from a collective process wherein many people, through their individual choices among many competing styles, form collective tastes that reflect the milieu and the spirits of the times²⁰⁷. This was increasingly strengthened by the significant changes that affected the fashion industry in the last decade, when the so-called “democratization of fashion” turned fashion from a trickle-down to a bubble-up process.

The contemporary consumer is more focused on lifestyle and identity than on class and the new digital technologies have completely changed the traditional fashion system, which has been opening up to new subjects and new means to convey its new styles. Although social elites and celebrities still play an important

²⁰³ Economics A–Z, available at <www.economist.com> (follow “Economics A–Z” hyperlink; then follow “P” hyperlink; then follow “positional goods” hyperlink).

²⁰⁴ H. LIEBENSTEIN, *Bandwagon, Snob, and Veblen Effects on Consumer Demand*, 64 *Q.J. Econ.* 183 (1950).

²⁰⁵ G. SIMMEL, *Fashion*, 10 *Int’l Q.* 130 (1904), reprinted in 62 *Am. J. Soc.* 541 (1957).

²⁰⁶ HEMPHILL, SUK, *The Law, Culture and Economics of Fashion*, cit., at 110.

²⁰⁷ H. BLUMER, *Fashion: From Class Differentiation to Collective Selection*, 10 *Soc. Q.* 275 (1969).

role, fashion magazines such as Vogue or Elle now contain “street-style” sections figuring people wearing outlandish outfits down the street and inspirations from the real life. Another new phenomenon is that of fashion bloggers, who started as ordinary girls sharing their personal looks on their social media and are now often referred to as “digital influencers”, since through their Instagram profiles they reach millions of followers looking for the latest trends and in the most famous cases they make profits for millions of dollars²⁰⁸.

Faced with the challenge of fashion shows becoming up-to-the-minute internet spectacle with photographs posted online and shared endlessly across social media, designers had to reinvent their business strategies. Some brands have partnered with technology and influencers on Tumblr, Instagram, Google Glass, Vine and Pinterest²⁰⁹, they broadcasted fashion shows on live streaming²¹⁰ and created some limited edition collections in collaboration with some fashion icons²¹¹. In its autumn/winter 2017-18 runway, Dolce & Gabbana replaced professional models with fashion bloggers, social media stars, and celebrities’ kids, a.k.a. the Millennials generation²¹². After that last December the CFDA proposed that fashion weeks should be consumer-facing events, Givenchy opened its show to 820 members of the public via a lottery system, singer and designer Kanye West sold 18,000 tickets for his Yeezy presentation-cum-performance and Rebecca Minkoff said “about a third of the room are consumers and they have all been invited via our department stores, media partners such as InStyle or Glamour, and our own stores and e-commerce”²¹³.

When a particular trend establishes within a certain group, then other people join, not simply out of desire to imitate that group, but because they desire

²⁰⁸ One of the most well-known fashion blogs is The Blond Salad, which “founded in 2009 by Italian Chiara Ferragni and Riccardo Pozzoli, evolved from being an outfit blog to a fashion & travel magazine and now to a digital platform offering a 360 degrees lifestyle experience.” Today, Chiara Ferragni collaborates with major fashion houses (Louis Vuitton, Dior, YSL, etc.), she has been on the cover of more than 50 of the most read magazines worldwide and she has her own shoe line, which is distributed in about 315 multibrand stores and in 2016 posted sales of 20 million euros. She was recognized by BoF and Forbes as one of the most influential personalities of the international fashion world and she was invited twice to do a lecture at Harvard Business School, that made The Blond Salad a case study for their MBA program.

²⁰⁹ *The Democratization of Fashion Week*, available at <http://www.huffingtonpost.com/christine-bronstein/the-democratization-of-fa_b_3890640.html>.

²¹⁰ See <https://www.valentino.com/gb/shop/women/introducing-spring-summer-2017_section> for an example of a fashion house broadcasting its fashion show on its official website.

²¹¹ One of the first cases was the collaboration between H&M and Anna Dello Russo in 2012, the *Vogue* Japan editor-at-large famous for her eccentric style who created an accessories collection for the high street store designed to reflect her love of ornamentation. “It’s the first time H&M has involved a fashion director in a special project,” said Dello Russo. “This is the sign of an important evolution in fashion.”

²¹² <<http://style.corriere.it/blog-michele-ciavarella/2017/01/14/dolce-gabbana-e-la-moda-di-un-futuro-che-e-gia-qui/>>.

²¹³ *The Democratization of Fashion: Why Consumers Come First at NYFW*, available at <<https://nowfashion.com/the-democratization-of-fashion-why-consumers-come-first-at-nyfw-18651>>.

to be in fashion, to associate themselves with things that are new, innovative, and state of the art²¹⁴.

How a new trend is established is effectively described in the iconic movie “The Devil Wears Prada” of 2006, where actress Meryl Streep plays the role of the legendary Editor-in-Chief of Vogue America, Anna Wintour:

[Miranda and some assistants are deciding between two similar belts for an outfit. Andy sniggers because she thinks they look exactly the same]

Miranda Priestly: “Something funny?”

Andy Sachs: “No, no, nothing. Y’know, it’s just that both those belts look exactly the same to me. Y’know, I’m still learning about all this stuff.”

Miranda Priestly: “This... ‘stuff’? Oh... ok. I see, you think this has nothing to do with you. You go to your closet and you select out, oh I don’t know, that lumpy blue sweater, for instance, because you’re trying to tell the world that you take yourself too seriously to care about what you put on your back. But what you don’t know is that that sweater is not just blue, it’s not turquoise, it’s not lapis, it’s actually cerulean. You’re also blithely unaware of the fact that in 2002, Oscar De La Renta did a collection of cerulean gowns. And then I think it was Yves St Laurent, wasn’t it, who showed cerulean military jackets? I think we need a jacket here. And then cerulean quickly showed up in the collections of 8 different designers. Then it filtered down through the department stores and then trickled on down into some tragic casual corner where you, no doubt, fished it out of some clearance bin. However, that blue represents millions of dollars and countless jobs and so it’s sort of comical how you think that you’ve made a choice that exempts you from the fashion industry when, in fact, you’re wearing the sweater that was selected for you by the people in this room. From a pile of stuff.” (IMDB, 2006)

“A trend feature is some shared, recognizable, design element”²¹⁵, quite uncommon in the previous collections and then become sufficiently widespread in stores and on other consumers, although still enabling differentiation through the availability of a sufficient variety of items containing that same feature. The convergence of designers on similar or related styles and themes can result from several factors, such the employment of forecasting services, the attendance of the same fabric and trade shows, the turnover of stylists, magazine editors and buyers toward different companies, common influences and new technologies²¹⁶.

According to the zeitgeist theory, fashion is thus seen as having a symbolic function or even considered to be a code or language by means of which people express their identity, personality and values²¹⁷. “The symbolic function of fashion

²¹⁴ BLUMER, *Fashion: From Class Differentiation to Collective Selection*, cit., at 262.

²¹⁵ HEMPHIL, SUK, *The Law, Culture and Economics of Fashion*, cit., at 120.

²¹⁶ *Id.* at 122-123.

²¹⁷ See for example D. CRANE, *Fashion and its Social Agendas*, University of Chicago Press (2000); R. BARTHES, *The Fashion Sysyem* (M. WARD, R. HOWARD trans., Farrar, Straus & Giroux 1983) (1967).

depends on the interplay of individual and social meanings”²¹⁸. Consumers choose among many different options available in the market those that can better suit their personal style and in making these choices they are influenced by the *zeitgeist* that can be reflected in historical events such as a war or an economic downturn²¹⁹, a particular public figure²²⁰, or a movie acclaimed for its style²²¹.

Fashion is thus a combination of individual and social impulses: it features the tension between the desire to be distinct as an individual and the desire to connect with a collectivity, which is what Professors Hemphill and Suk call “differentiation” and “flocking”²²².

2. FASHION AND MODERN CONSUMER CULTURE: TWO OPPOSITE THEORIES

Once defined the concept of fashion, the next step is analyzing its relation with intellectual property law. On this point the illustration of the two opposite theories that have been dividing the American academia is a picture of the two traditional arguments advanced in favor and against the extension of IP protection to fashion design. Depending on the degree of protection they advocate for and the model of consumer behavior they adopt, on one hand the “Piracy Paradox theory” argues for a low level of IP protection, on the other hand the “Flocking and Differentiation theory” argues for an intermediate level of IP protection through the creation of a narrower sui generis copyright-like right.

²¹⁸ HEMPHILL, SUK, *The Law, Culture and Economics of Fashion*, cit., at 113.

²¹⁹ See for example C. HORYN, *Macho America Storms Europe’s Runways*, N.Y. Times, July 3, 2003, at A1 (detailing the prevalence of such Iraq War-inspired fashion as “an image that symbolized the virile Texas cowboy in boots and broad hat” and “battle jackets and cartridge belts fashioned from banker’s broadcloth” on the runways of Milan); G. TREBAY, *Waiting for Takeoff: Designers Offer a Peek of Spring*, N.Y. Times, Sept. 10, 2002, at B11 (“Many American designers, in the season shown after 9/11 . . . were moved to express . . . the anxiety that had crept into most corners of American life.”); D. COLMAN, *When Fashion Goes for Broke*, N.Y. Times, Sept. 3, 2008, at G6 (“‘Whenever the economy gets tough, fashion responds by playing it safe,’ said Jim Moore, the creative director of GQ . . .”).

²²⁰ See for example E. WILSON, *Merrily They Dress*, N.Y. Times, Nov. 20, 2008, at E1 (“Ever since the Obamas appeared on election night as a coordinated fashion tableau, as if they had just stepped out of a holiday greeting card portrait, sales of red dresses have been terrific, said Kay Unger, who makes party frocks.”).

²²¹ See for example R. LA FERLA, *Forget Gossip, Girl, the Buzz Is About the Clothes*, N.Y. Times, July 8, 2008, at A1 (describing the “‘Gossip Girl’ influence” on designer collections).

²²² HEMPHILL, SUK, cit., at 106.

2.1 The Piracy Paradox

Professors Kal Raustiala and Christopher Springman have been among the most influential critics against fashion design protection, which, they argue, is unneeded because the fashion industry operates in what they describe as a “low-IP equilibrium”²²³.

Their position has become famous under the theory of “Piracy Paradox”, because it argues that the proliferation of copies of a style reduces the value of that style and renders it obsolete, pushing consumers and hence producers to new designs and trends, so entailing innovation. Therefore, they claim that copying is paradoxically beneficial for the fashion industry, or at least not very harmful, and designers are thus not incentivized to fight for a higher degree of protection.

Professors Raustiala and Springman consider fashion a status-conferring good and offer two interrelated models - “induced obsolescence” and “anchoring” - that, in their view, together help explain the fashion cycle and its low-IP equilibrium. They argue that the diffusion of copies and derivative works establishes, i. e. “anchors”, a new trend, communicate its existence to consumers and speeds up its dissemination from the trend-setters to a broader public. The transition of a design from elite to mass product, in turn, erodes its positionality and causes its exhaustion, since once widely diffused a design loses its exclusivity and as a consequence the early-adopter group moves on to a new trend that sets them apart from the crowd. Then, the process begins again. Therefore, under the Piracy Paradox theory “copying signals a trend, solidifies it, and then exhausts it”²²⁴.

Although this theory has become the main ground for advocates against fashion design protection, the argument of Raustiala and Springman is indeed more nuanced: they do not claim that the low-IP equilibrium is the optimal solution for designers or consumers, but that the model of induced obsolescence and anchoring accounts for the stability of such low-IP equilibrium²²⁵. They recognize that a high-IP regime would not necessarily reduce the public welfare, but they think that original designers have no strong incentives to lobby for a higher degree of protection. Fashion, because of its fast cycle and positionality, is considered a rapidly repeating game, where a firm is an originator one season and a copyist in the next one, and since sooner or later all engage in some copying, they tolerate to be copied as well.

²²³ See RAUSTIALA, SPRINGMAN, *The Piracy Paradox: Innovation and Intellectual Property in Fashion Design*, cit.

²²⁴ K. RAUSTIALA, C. J. SPRINGMAN *The Piracy Paradox Revisited*, 61 *Stan. L. Rev.* 1201, 1210 (2009).

²²⁵ See RAUSTIALA, SPRINGMAN, *The Piracy Paradox: Innovation and Intellectual Property in Fashion Design*, cit., at 1733: “We acknowledge that many designs do not fall within any identifiable trend, and the induced obsolescence/anchoring process does not apply to every innovation produced by the fashion industry. Our point is simply that the existence of identifiable trends is itself a product of pervasive design copying and that the creation and accelerated extinction of these trends helps to sell fashion.”

They focus on the link between legal protection and innovation in the fashion industry and based on a comparison between the US and the EU legislation they claim that “the nominal difference in legal rules has had no substantial effect on the real rules that govern innovation in either jurisdiction”²²⁶ because some practices are endogenous of the fashion industry and they are not sensitive to changes in the legal rules. This approach, however, presents several problems.

First, Raustiala and Springman root their entire model on an outdated conception of fashion, since in their opinion “it is the positional nature of fashion as a status-conferring good rather than any abstract aesthetic principle that drives the fashion cycle”²²⁷ and they thus overlook the other functions that fashion has in the modern consumer culture as a means of self-expression. As a result, they fail to consider that obsolescence has causes other than copying, including the passage of the seasons, a change in the spirit of the times, desire for the new, and the innovative products of other designers, thus is not certain that innovation is actually driven by copying²²⁸.

Furthermore, if innovation in fashion is driven by the proliferation of status-goods, one would expect the most status-signaling goods - i.e. “it-bags” - to exhaust their cycle faster. However, some of them, such as the Hermes Kelly Bag and the Chanel 2.55 bag, although widely copied and counterfeited, have remained essentially unchanged for a half-century and are still best-sellers. Therefore, the weak correlation between the positionality of a design and the frequency of its innovation questions the theory that knockoffs spur innovation.

Second, Raustiala and Springman overlook the effects that the radical advances in global communications and technologies have had on fashion’s traditional extra-legal protection, enhancing retailers’ aggressiveness and depriving fashion design originators of their “first-move advantage”²²⁹.

Third, Raustiala and Springman do not distinguish between close copying and trends or other forms of reworking, such as interpretation, adaptation, homage, or remixing. In their view, there is no reason to distinguish between line-by-line copies and derivative reworkings because they both fuel the fashion industry’s cycle of induced obsolescence. However, this distinction is fundamental in analyzing the effects on innovation, because while derivation, inspiration, and borrowing are valuable and central to fashion and innovation, in that they allow designers to draw freely upon ideas, themes, and styles available in the general culture, and refer back to others’ prior designs, line-for-line copying can substitute for and dilute the value of the original, thereby stifling innovation.

Fourth, from a more practical perspective, if designers did really profit from “induced obsolescence” of their products, that would not explain their opposition to copyists and their continued efforts to obtain stronger protection.

²²⁶ *Id.* at 1743.

²²⁷ *Id.* at 1727.

²²⁸ HEMPHILL, SUK, *The Law, Culture and Economics of Fashion*, cit., at 114.

²²⁹ See L. HOWARD, *An Uningenious Paradox: Intellectual Property Protections for Fashion Designs*, 32 *Colum. J.L. & Arts*, 100, 110-111 (2009).

2.2. Flocking and Differentiation

The intermediate approach between the no-protection regime and the traditional long term copyright regime advocates for the extension of copyright protection to fashion designs, but through a narrower *sui generis* right. I believe this is the most appropriate level of protection for fashion designs and this is indeed the one that has been adopted by U.S. Congress in drafting the most recent bills for fashion design protection and by most of other countries.

Professor Susan Scafidi, Academic Director of the Fashion Law Institute at Fordham University, advocated for the DPPA and currently supports the IDPA. She claims that copyright law would best preserve innovation because capable of protecting only certain expressions, while leaving in the public domain others²³⁰ and that the shorter duration of three years of protection is well suited to the dynamics of the fashion industry and its seasonal nature²³¹.

Professors Scott Hemphill and Jeannie Suk, teaching respectively at Columbia and Harvard Law Schools, share the same view, but from a slightly different perspective. They created a new model of consumer and producer behavior derived from a cultural analysis and they drew the distinction between close copying on one hand and participation in common trends on the other hand. This distinction is fundamental in analyzing the effects on innovation, because while the latter, through derivation, inspiration, and borrowing is a valuable and central practice in the fashion industry, the former can substitute for and dilute the value of the original design, thereby inhibiting innovation.

Copying entails the imitation of an existing design and usually its passing-off as the original. Participation in a trend instead -either by a consumer or a designer- does not necessarily or usually imply copying, but under the *zeitgeist* theory express people's desire to join a collective moment (flocking) while still being able to differentiate themselves (differentiation)²³². Although at first sight they might appear to be in tension, flocking and differentiation actually exist together in a dynamic relationship²³³ and this dynamic relationship is the key to understand the relation between copying and innovation.

The practice common in fashion to draw freely upon prior works, by quotation, referencing or interpretation has traditionally been misinterpreted to deny the originality of fashion design and exclude it from legal protection.

²³⁰ DPPA Hearing, H.R. 2196, at 79 (statement of Susan Scafidi, Associate Professor, Southern Methodist University).

²³¹ *Id.* at 84 (explaining that the three years term is particularly appropriate for the fashion industry because it will allow designers time to develop their ideas in consultation with influential editors and buyers prior to displaying the work to the general public, followed by a year of exclusive sales as part of the designer's experimental signature line, and another year to develop diffusion lines or other mass-market sales).

²³² See HEMPHILL, SUK, *The Law, Culture and Economics of Fashion*, cit., at 114.

²³³ See *id.* at 119 (tastes for differentiation and flocking will vary across consumers, or even for the same consumer under different circumstances, with the the particular fashion trend or the particular item of fashion, or with other consumers' choices.)

However, I believe it should be considered in outlining its extent of protection rather than in deciding whether to provide it with IP protection or not.

Hemphill and Suk claim that the lack of protection against exact copies reduces the amount and shifts the direction of innovation²³⁴ and urge an industry-specific solution to the regulation of innovation in the fashion industry, that would prohibit close copies while preserving flocking and differentiation in its varied forms of inspiration, homage, referencing, and quotation²³⁵. Although they support a “substantial dissimilarity” infringement standard, instead of the “substantially identical” standard currently adopted in the IDPPA and the IDPA, the proposed U.S. legislation to some extent reflects their reasoning and analysis²³⁶.

I believe this approach to be the most accurate to describe the phenomenon of fashion because while not necessarily denying the importance of status signaling in the trends adoption, it captures a more updated and complex view of the perception people currently have of fashion, which has been effectively expressed in Vogue America Editor-In-Chief Anna Wintour’s words describing it as “looking on-trend and beyond trend and totally themselves”²³⁷.

2.3 *The aspirational hierarchy of brand consumption*

For their own admission, the flocking-differentiation model of Hemphill and Suk describes well consumers’ attitude toward apparel, characterized by the concurrent desire of trend participation and self-expression, but does not apply to high-end “it bags”, where the status-conferring function still prevails and consumers are not interested in differentiation.

In the modern consumer culture, there is therefore a mixed pattern of fashion consumption, that combines the wish to comply with contemporary fashion norms (bandwagon effect) and the wish to position themselves above of others (snob effect). This model has been represented in terms of an aspirational hierarchy consisting of different consumer sub-groups, each with its own behavior²³⁸. At the very top are a selected group of *trend setters* who dictate what is in fashion and what not. They are key individuals, like glamorous celebrities, fashion insiders are most recently famous fashion bloggers, whose looks are featured by fashion magazines and social channels. They embody the conspicuous consumption in its original Veblen’s meaning rather than

²³⁴ *Id.* at 129-30.

²³⁵ *Id.* at 138.

²³⁶ See IDPPA Hearing, *cit.*, at 14 (testimony of Jeannie Suk, Professor of Law, Harvard Law School, explaining that the IDPPA “reflects a judgment that knockoffs are not necessary to the business model of high-volume sellers of on-trend clothing at a low price point” and that fast-fashion firms “would have to innovate and invest somewhat in design rather than only replicate others’ work in full”).

²³⁷ A. WINTOUR, *Editor’s Letter*, Vogue, August 2008, at 70.

²³⁸ D. S. WALL, J. LARGE, *Jailhouse Frocks: Locating the Public Interest in Policing Counterfeit Luxury Fashion Goods*, 50 (6) *British Journal of Criminology*, 1094 (2010).

consumption only to display status. Trend setters wear only very expensive haute and demi-couture items, often even before they are available on the market thanks to the privileged relationship they have with designers. Below the trend setters in the aspirational hierarchy are the *cognoscenti*, who are elitist consumers driven by status consumption. They buy only authentic luxury designers goods and are close to trend setters, whereas through a snob effect they see themselves totally apart from those who buy fashion to conform. Those who buy fashion goods to conform to conventional fashion norms are in fact represented on a lower level and referred to as “*the crowd*”, since they imitate rather than create new fashion trends. Whilst elitist consumers like the trend setters and cognoscenti driven by conspicuous consumption comprise the luxury market, individuals of the crowd driven by conformity consumption comprise instead the mass market. The crowd is in turn divided into two distinct sub-groups: the *aspirational consumers*, who want to position themselves at the top of the crowd and possibly be associated to the cognoscenti (faux snob effect), and the *conformity consumers*, who just want to be part of the group and buy fashion to connect with a collectivity (bandwagon effect).

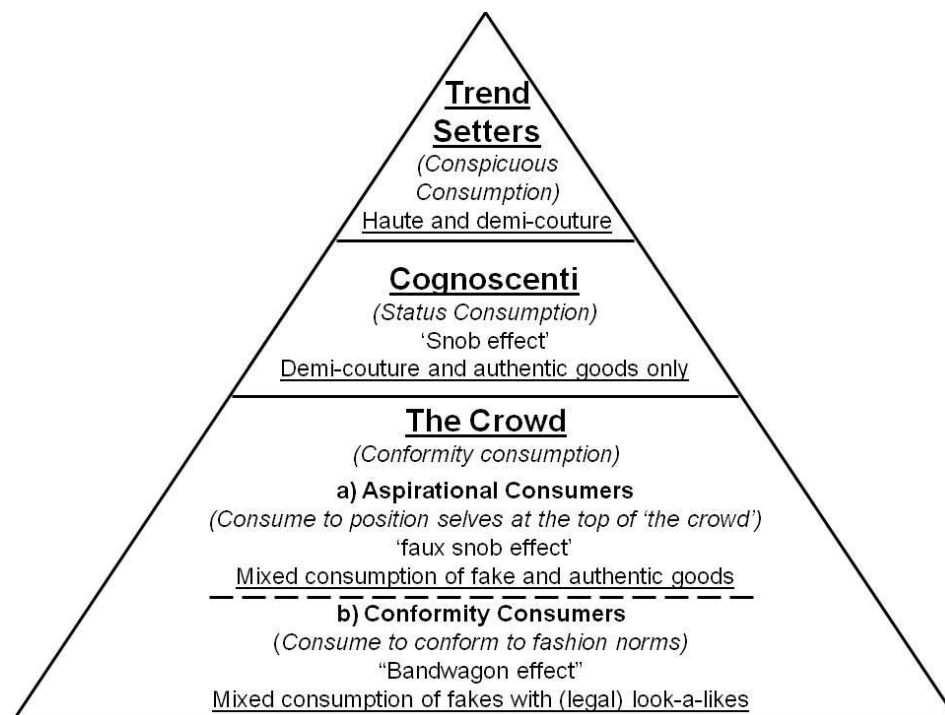


Figure: The aspirational hierarchy of brand consumption, Wall and Large, Jailhouse Frocks: Locating the Public Interest in Policing Counterfeit Luxury Fashion Goods, 50 (6) British Journal of Criminology, 1094 (2010)

Although this model of aspirational hierarchy of brand consumption was construed by the authors to analyze the consumers' behavior with respect to

counterfeited goods, it draws a new model of fashion consumption in general, that is much more complex than the orthodox status theory. In the modern consumer culture, people make different choices depending on several factors and there is not a general model of consumer behavior suitable for a one-fits-all solution.

3. THE BASIC THEORY OF INCENTIVES APPLIED TO FASHION DESIGN

Even if the Piracy Paradox proved to be true and copying was really not harmful for the fashion industry, that does not mean that the current low-IP regime is the optimal solution for the society as a whole. Under the U.S. Constitution, the purpose of intellectual property law is to “promote the Progress of Science and Useful Arts”²³⁹. This clause has been interpreted to support the incentive theory behind copyright, under which the purpose of the monopoly granted by the law is not merely to provide financial gain to creators, but rather to provide enhanced creativity and innovation to the society as a whole.

“Whether a regime of relatively free appropriation promotes or inhibits innovation in any particular creative field is an empirical question”²⁴⁰. Scholars against fashion design protection argue that consumer surplus as well as joint firms profits are higher in the no protection benchmark and thus a low level of intellectual property protection is the optimal solution because it allows high-end consumers to enjoy haute couture and mass market customers to get copies, whereas designers can charge higher prices and serve higher market share while mass-market producers save on the season’s fixed costs.

Although this argument has long played a role in the debate over fashion design protection, I purport, instead, to show that both producers and consumers would be better off with enhanced design protection, still recognizing the danger of a too broad right and the need to grant a carefully tailored scope of protection. I will analyze the effects that copying has on designers, on consumers, and on the social welfare to demonstrate that fashion does not waive from the orthodox assumption of IP law that piracy threatens creativity and innovation. Indeed there is evidence that designers need higher protection as an incentive to innovate and that the connection between IP rights and innovation remains strong.

3.1 A new concept: stylistic innovation

Once accepted that fashion is not (only) a status signal, but is an expressive process, I consider fashion to be a creative good, whose commodity

²³⁹ U.S. Const. art I, § 8.

²⁴⁰ RAUSTIALA, SPRINGMAN, *The Piracy Paradox: Innovation and Intellectual Property in Fashion Design*, cit., at 1212.

produced is “style”, defined as “the feature that differentiates two products of the same type, therefore creating value through differentiation”²⁴¹. Like all the other creative industries, the wealth of the fashion industry depends on innovation because consumers are driven by their desire of novelty and variety.

In the past, fashion has been disregarded because considered frivolous and wasteful²⁴², but as long as consumers are willing to pay for it in its various forms, it is a common assumption in economic models about fashion that regulation ought to be set to promote innovation and allow consumers a variety of options²⁴³. There shall be no room in the law for value judgments and I can see no reasons to treat fashion consumption differently from the consumption of other non-harmful goods that have creative and expressive components, such as books, music, films, and art. Moreover, the concern about negative positional externalities is driven by the status-conferring theory of fashion and is as true for fashion as it is for other consumptive goods that are also expressive such as the high-end art market, the high-brow literary fiction, or opera performance, for which protection against copying is granted²⁴⁴.

In addition, for a long time the importance of artistic innovations was neglected because ever since Schumpeter’s classical concept of innovation types, most definitions of innovation have referred to technological innovation²⁴⁵. As opposed to technological innovations, it has been recently introduced the concept of “stylistic innovations”, which are perceived as differences in a set of accepted stylistic norms and are “types of innovation in which the response of certifiers or end-consumers is constitutive of the innovation itself”²⁴⁶ and in which intermediaries between producers and consumers, such as media and fashion magazines, play a pivotal role²⁴⁷.

²⁴¹ J. JARNOW, K. G. DICKERSON, *Inside the Fashion Business*, New Jersey, Prentice Hall (1997).

²⁴² See HEMPHILL, SUK, *The Law, Culture and Economics of Fashion*, cit., at 115 (bringing as an example “sumptuary laws, which, until the eighteenth century, purported to limit the expenditures people could make on clothing, to protect against the vice of wasteful spending for personal appearance and ostentatious display, including for purposes of following fashions.”)

²⁴³ G. M. GROSSMAN, C. SHAPIRO, *Foreign Counterfeiting of Status Goods*, 103 *Q.J. Econ.* 79, 89 (1988).

²⁴⁴ See HEMPHILL, SUK, cit., at 117 (explaining that “if fashion serves to distinguish some from others, the satisfaction some people receive from signaling their high status through fashion may be offset by the negative utility of others. On this view, participation in fashion trends is spending to reduce that negative utility. This expenditure is wasteful.”)

²⁴⁵ J. A. SCHUMPETER, *Capitalism, Socialism and Democracy*, London, Routledge, 2006 (according to which, an innovation can be the introduction of a new good, the introduction of new means of production, the discovery of a new source of raw material, the conquest of a new market or the establishment of a new organization.)

²⁴⁶ SCHWEIZER, *Managing Interactions between Technological and Stylistic Innovation in the Media Industries*, cit.

²⁴⁷ E. GICK, W. GICK, *Why the Devil Wears Prada: The Fashion Formation Process in a Simultaneous Disclosure Game Between Designers and Media*, in *Center for European Studies Working Paper Series* 147, 2007, 1-25.

For all these reasons, I believe unwise to find more innovation socially undesirable in the fashion industry and to depart from the central assumption of intellectual property that producers need incentives to innovate.

3.2 The impacts of copying upon designers

Fashion associations such as the Council of Fashion Designers of America (CFDA) and the National Chamber for Italian Fashion (CNMI) complain that copying destroys the original designers' profits, especially if they cannot rely on a recognized brand image. In order to establish this to be true, three factors shall be considered: a) a decrease in the value of the original design with copying; b) the unavailability or unprofitability of other appropriation mechanisms such as service and complementary sales or first mover advantages; and c) costs of enforcement higher than the gain in profits from enforcement. Although empirical studies on this matters in relation to fashion are still scarce, I will now use the existing economic theories to analyze each of these factors.

a) Copying Reduces the Value of the Original Design

Fashion houses are in first place businesses which have significant costs to recoup, but, as it was argued on behalf of fashion designers during the DPPA hearing, in a lack of protection regime they are not able to receive adequate returns for their work²⁴⁸. The degree to which the innovators can reap the rent of their innovation will in turn influence the level of innovative activity and thus affect social welfare. The effects of copying on firms profits depend on 1) the size of the possible external effects; 2) consumers differentiation; and 3) market overlap between the original and the copy.

Given the desire of people to flock in common trends, external effects produced by fashion consumption include network, herding and bandwagon effects, which occur when the demand for a style rises if the number of consumers buying it is perceived to be growing, thus increasing the product value for prospective consumers of the original design. If network effects are high enough that some consumers value the original more with network effects and are thus more willing to pay, then the profits under piracy will be higher than without piracy because firms can charge a higher price upon the high-end consumers without selling to low value consumers. Therefore, an essential condition in order for piracy to be beneficial for the firm is that the original and the copy have to be distinct enough that some consumers will always value the original more than the copy if both have the same price.

I agree with the argument that the likely inferior quality of the copy as compared to the original design may reduce the overlap between the two and make the original design more valuable, but at the same time I believe this to depend also on the firms' ability to differentiate among themselves. It is thus probably true that big fashion houses are less harmed by copying, as they can rely on brand image as means of differentiation, whereas copyists target designs

²⁴⁸ HEMPHILL, SUK, *The Law, Culture and Economics of Fashion*, cit.

that are technically and legally easy to copy, that is mid-range designs that lack any exterior brand logo and do not involve expensive materials and complicated tailoring. In the case of small and medium designers, the original works are usually sold for hundreds, not thousands of dollars and they are thus within the reach of copyists' customers²⁴⁹.

When consumers visit different stores, or different floors of the same department store selling a particular design in its original and copied forms, they value less the original design and this causes both sales substitution by either the final consumer²⁵⁰ or an aggressive retailer²⁵¹ and a decrease of the demand for the original design. Therefore, when there is overlap of the markets for the original and the copy, the opposite of a network effect occurs, that is a snob effect, under which the demand decreases if the number of consumers is perceived to be growing.

Under these circumstances, originating design houses would have a strong incentive to pursue a strategy of single-firm price discrimination in order to obtain vertical integration through the creation of derivative works at lower price points of their own designs, instead of let others do it. Some fashion houses have thus created bridge lines, which essentially knockoff themes developed in their premier lines, but with cheaper materials and at lower prices in order to price discriminate among consumers²⁵². For example, Armani has several different lines (Giorgio Armani Black Label, Armani Privè, Emporio Armani, Armani Jeans, Armani Collezioni, Armani Exchange), but it remains an isolated case.

Even though a single firm may create different lines under different brand names, luxury fashion houses have remained reluctant to do so fearing reputational costs in terms of blurring and tarnishment of their marks. "The introduction of imperfect copies by the producer . . . violates the producer's commitment to the brand exclusivity"²⁵³. This likely explains also why while they have been open to produce capsule collections for some major retailers, most brand are instead skeptical in designing an ongoing diffusion line with these

²⁴⁹ Even customers of modest means might "trade up." For a discussion of this phenomenon, see M. J. SILVERSTEIN, N. FISKE, J. BUTMAN, *Trading Up: The New American Luxury*, 81 *Harv. Bus. Rev.* 4, 48 (2003).

²⁵⁰ E. WILSON, *Simply Irresistible*, N.Y. Times, May 21, 2008, § SPG, at 1 (noting return of F&C dress by customers who saw the copy); see also *William Filene's Sons Co. v. Fashion Originators' Guild of America, Inc.*, 90 F. 2d 556, 558 (1st Cir. 1937) ("A customer who . . . sees a copy . . . at another store at a lower price is quite likely to think that the retailer from whom she bought the dress lacks ability to select distinctive models and that she has been overcharged. Dresses are returned and customers are lost.").

²⁵¹ See F. SALMON, *Market Movers: Susan Scafidi on Copyrighting Fashion*, Portfolio, Sept. 19, 2007, available at <<http://www.portfolio.com/views/blogs/market-movers/2007/09/19/susan-scafidi-on-copyrighting-fashion>> (listing examples in which initial or subsequent orders went to a copyist rather than the original designer).

²⁵² See RAUSTIALA, SPRINGMAN, *The Piracy Paradox: Innovation and Intellectual Property in Fashion Design*, cit., at 1724-25.

²⁵³ J. M. BARNETT, *Shopping for Gucci on Canal Street: Reflections on Status Consumption, Intellectual Property, and the Incentive Thesis*, 91 *Va. L. Rev.* 1381, 1403-1404 (2005).

partners, because the risk of an ongoing association with low-end products in the long term would bear too high a cost²⁵⁴.

b) New Technologies Have Eroded Fashion's Extra-Legal Protection

Another major contention against higher protection is that fashion is a norm-based IP regime, in which a system of social norms created by the design community provides functional IP protection in lieu of legal rights. In a norm-based regime, designers enjoy reputational benefits for their innovations, whereas offenders are blamed for copying and subject to community penalties, such as critical disparagement or neglect from the fashion media, that can ultimately harm their brand name and their bottom line²⁵⁵.

In a study on the protection of recipes among French chefs, Fauchart and von Hippel considered three different norms that have to be held in common by members of a certain community in order for this system to stand in place: an anticopying norm, which sanctions exact copies; a secrecy norm, which implies that proprietary information will not be passed on without permission; and an acknowledgment norm, which involve a right to be recognized as the author of the work²⁵⁶. Further, an essential premise of this system is that actions of non-members must not be able to undermine the value of sustaining the norm within the community as well as the effectiveness of rewards and sanctions controlled by the community.

An example of norm-based IP regime was the “Fashion Originator’s Guild of America”, a nationwide cartel established in 1932 by a still-emerging American fashion industry to protect national originators of fashion and styles against copying²⁵⁷. (Copying European design models was apparently allowed.) The Guild was a private trade organization which rested on self-help measures to fight piracy in the absence of legal protection for fashion design. It created a registry for designers to register their original designs and required retailers to sign a “declaration of cooperation” that they would not deal in copies. In case of non-compliance, retailers were subject to “red-carding” (i.e., boycott) and Guild members could not do business with them or they were sanctioned. In order to maintain this system, the Guild further established a full system of enforcement, based on regular audit of the books of its members, investigators visiting stores to detect copies and an internal tribunal and appeal system for retailers alleged

²⁵⁴ See HOWARD, *An Uningenuous Paradox: Intellectual Property Protections for Fashion Designs*, cit., at 120-121.

²⁵⁵ *Id.*, at 106-09.

²⁵⁶ E. FUCHART, E. VON HIPPEL, *Norms-based Intellectual Property Systems: The Case of French Chefs*, MIT Sloan Research Paper No. 4756-06 (Jan. 2006), available at <[http://web.mit.edu/evhippel/www/papers/French%20Chefs%20WP %201-12-07.pdf](http://web.mit.edu/evhippel/www/papers/French%20Chefs%20WP%201-12-07.pdf)>.

²⁵⁷ For an extensive illustration of the rise and fall of the Fashion Originators’ Guild see C. S. HEMPHILL, J. SUK, *The Fashion Originators’ Guild of America: Self-Help at the Edge of IP and Antitrust*, Columbia Public Law Research Paper No. 13-344 (March 2013). Available at SSRN: <<https://ssrn.com/abstract=2237799>>.

to sell copies. In sum, the Guild established a quasi-legal enforcement system consisting of its own rules born of agreement, measures of enforcement, tribunals for claims of violation, and effective punishment. The Guild's membership rose from 12 to 176 members and at its height 40,000 new designs were registered each year. Before being dismantled by the U.S. Supreme Court because in violation of antitrust law²⁵⁸, The Fashion Originators' Guild of America was arguably the "largest scale private intellectual property scheme ever implemented"²⁵⁹.

In the modern society where fashion is a low concentrated industry with a large number of firms of varying size, however, a system like this can no longer work because, although there are some associations such as the CFDA and the AAFA in the U.S., group members are not unaffected by copying of non-group members, thus making difficult to maintain an anticopying norm²⁶⁰. In particular, while this norm-based IP system continues to operate within the high-end fashion designers via industry practices and community expectations²⁶¹, it does not control copying by low-priced knockoff brands and retailers.

In fact, in the high fashion community copying is much less tolerated and designers are more sensitive to their reputation of innovators since their ability to differentiate themselves is the most important key for success and when a designer's work is overly derivative, it ultimately hurts his bottom line. On the other hand, however, knockoff designers do not feel part of the high fashion community and therefore do not have reason to follow its norms. Nor have they the same incentives, that are indeed the opposite, since while an aspiring fashion designer is rewarded for the originality of his creation, the knockoff is rewarded for the precision of its imitation²⁶².

Although copying in fashion is not a new problem, the globalization and advanced electronic communication made possible copying faster, at a larger scale and with lower costs, thus making it a more widespread and powerful

²⁵⁸ *Fashion Originators' Guild Of America v. FTC.*, 312 U.S. 457 (1941).

²⁵⁹ J. BARNETT et al., *The Fashion Lottery: Cooperative Innovation in Stochastic Markets*, 39 *J. Legal Stud.* 159 (2010).

²⁶⁰ See J. WU, *Intellectual Property Protection and its Influence on Innovation and Creativity-Evidence From the Fashion Industry*, cit., at 39.

²⁶¹ See HOWARD, *An Uningenious Paradox: Intellectual Property Protections for Fashion Designs*, cit., at 107-8 (explaining that these community practices and norms have established a de facto intellectual property monopoly, protecting high-end designers from copying by other designers for at least a season).

²⁶² See *id.*, at 109.

phenomenon than ever before²⁶³. In the digital age, the internet gives nearly simultaneous access to photographs from runway shows worldwide through websites like Style.com and many fashion blogs, which feature close-up photography of design details, as well as distilled editorial evaluations as to what collections and items are likely to be most successful. In fact, “the most striking consequence of low-cost, high-scale, rapid copying is not in beating an original to market, but in the ability to wait and see which designs succeed, and copy only those”²⁶⁴.

Advances in the speed of apparel production made possible the manufacturing of thousands of copies in six weeks or less, thus allowing copies to enter the stores before the originals and depriving designers of the first mover advantage. The owner of knockoff fashion manufacturer Simonia Fashion, which supplies stores such as Forever 21 explained: “If I see something on Style.com, all I have to do is e-mail the picture to my factory and say “I want something similar, or a silhouette made just like this.” The factory can then deliver the merchandise months before the original designer”²⁶⁵. Whereas once high-end designers used to enjoy a de facto IP monopoly on their unique design for at least a season and the low-end of the market was a year delayed, fast fashion has changed that.

The fast fashion system has affected not only consumers behavior, but also manufacturers and retailers choices, through a transformation of their inventories and the production of their own private labels or “house “brands” to more closely resemble the last runway collections²⁶⁶. For instance, famous department store Macy’s was accused by a designer of selling both the original design and its copy and in 2008 was sued for trademark infringement for allegedly marketing knockoffs of Victoria’s Secret “Pink” lingerie line.

The erosion of the first-move advantage causes reputational and financial harm to a designer’s business. Given that in the competitive fashion market, a designer’s ability to differentiate himself is the most important key to establish a valuable brand, the diffusion of the designer’s creation even before it reaches the

²⁶³ See R. LA FERLA, *Night of a Thousand Knockoffs*, N.Y. Times, Mar. 9, 2006, at G11 (“[T]he number of companies cranking out replicas for \$200 to \$700 has increased exponentially, most racing to keep pace with a demand that shows no signs of abating.”). In his testimony on the DPPA, designer Jeffrey Banks effectively described how things have changed: “In the blink of an eye, perfect 360 degree images of the latest runway fashions can be sent around the world. And of course, they can be copied. . . . [T]here are even software programs that develop patterns from 360 degree photographs taken at the runway shows. From these patterns, automated machines cut and then stitch perfect copies of a designer’s work. Within days of the runway shows, the pirates at the factories in China and other countries where labor is cheap are shipping into this country those perfect copies, before the designer can even get his or her line into the retail stores. Since there is no protection in America, innovation launched on the runway—or the red carpet—is stolen in plain sight.”

²⁶⁴ HEMPHILL, SUK, *The Law, Culture and Economics of Fashion*, cit., at 125.

²⁶⁵ E. WILSON, *Before Models Can Turn Around, Knockoffs Fly*, N.Y. Times, Sep. 4, 2007, at A1.

²⁶⁶ See E. WILSON, *O.K., Knockoffs, This is War*, N.Y. Times, Mar. 30, 2006, at G1. (“Major department stores with private labels, which often include close copies of designer looks, are divided on the proposed law because they also do business with the offended designers.”).

stores undermines his ability to create the important link between the novelty of his design and his name. “Instead of having exclusivity over a given design, his designs become associated with a broader trend rather than with their specific source. The impact of his new product in the shopping environment is diluted”²⁶⁷. Even though a designer can be able to charge a very high price for its items because of its reputation of design innovators, however he is not able to establish a link between the design and the brand.

Therefore, the Piracy Paradox’ theory that copying drives sales undervalues the significant role of timing in the fashion cycle, because when the knockoff reaches the market simultaneously with or even before the original, the impact of the design on consumers is diluted²⁶⁸.

In describing this model of fast-fashion business, Hemphill and Suk introduced the important distinction between fast-fashion copyists and fast-fashion designers²⁶⁹. While the firms’ difference in design practice can be explained with their place of incorporation²⁷⁰, it is also reflected in the frequency of lawsuits, since in the period between 2003 and 2008 Forever 21 was defendant in fifty-three actions for close copying, compared to two for H&M and none for Zara²⁷¹.

I thus conclude that even assumed the beneficial effect of fast-fashion copyists in making trends available at a lower price point to consumers who would otherwise not be reached by high-end designers, this same purpose can be even better served by fast-fashion designers, that not only provide on-trend products at a lower price, but also engage in more innovation, thus preserving the designer’s appropriation right in his design as well as satisfying the consumer’s desire for trend participation.

c) The Costs of IP Enforcement Must Be Lower Than the Related Benefits

The third essential condition for adequate intellectual property protection is that the costs of enforcement shall be lower or at least equal to the benefits of such enforcement.

²⁶⁷ HOWARD, *An Uningenious Paradox: Intellectual Property Protections for Fashion Designs*, cit., at 111.

²⁶⁸ See *id.* at 112.

²⁶⁹ HEMPHILL, SUK, *The Law, Culture and Economics of Fashion*, cit., at 126-7. Examples of the formers are Zara and H&M, which avoid close copying and instead engage in adaptation and interpretation by a team of in-house designers; examples of the latters are Forever 21, which although describes its design system as “proprietary”, does not employ any fashion designers, but a team of “design merchants” who purchase inventory from a variety of suppliers and A.B.S., which offers line-for-line copies of dresses worn to red-carpet events by celebrities.

²⁷⁰ H&M is Swedish and Zara is a Spanish company and they are thus both incorporated in Europe, where fashion designers are granted protection against close copying, whereas Forever 21 and A.B.S. are American companies, thus not subjected to close copying liability.

²⁷¹ See HEMPHILL, SUK, cit., at 127.

In an application of the prisoner's dilemma to the fashion industry, it has been proved that a Designer's decision about whether to bring a lawsuit against copying or not is highly sensitive to the probability of an outcome unfavorable to Copier²⁷². If this probability is sufficiently high, the players' most optimal strategies will be for Copier to chose Exact Copy, Designer to choose Enforce, and then for Copier to Settle. This is it because, even knowing that Designer will chose Enforce, Copier can still enjoy more profits from Exact Copy than from Redesign thanks to lower unit costs, the avoided expenses of design and more sales given the similarity to the original design. On the other hand, as the outcome becomes more favorable to Copier, he will choose not to Settle, but instead to Fight and litigate to the end up to the point where courts' favor to Copier converges to 100%, in which the game collapses in the no protection regime and Designer chooses not to Enforce without bothering to bring a lawsuit.

The study then goes on to analyze the effect of the IDPPPA on the game theory model and predicts that, since its passage would dramatically decrease the likelihood of an outcome favorable to Copier, Copier and Designer would choose strategies that result in Redesign and Not Enforce, with benefits for the society as a whole. Applying the backward induction model, knowing that Copier will always choose Settle when it has first chosen Exact Copy and given that the IDPPPA provides a protective regime and increases the magnitude of settlement payments from Copier, Designer will always choose Enforce, as the payoff of -20 (the loss of 100 from copying is mitigated by the settlement amount of 80) is preferable to the payoff of -100. On the contrary, if Copier chooses to Redesign, he will then decide not to Settle, but to Fight because his item does not satisfy the "substantially identical" liability standard of the IDPPPA and thus Designer will chose Not Enforce because losing nothing is preferable than losing the litigation costs.

The game theory application, although simplified because of discussion needs, effectively shows how the uncertainty about the outcomes of litigation can affect the incentives of the parties involved and cause them to behave in different ways under different legal regimes. I agree with the author that the uncertainty of the current status of U.S. law does not bring to an optimal solution, but what I think his analysis fails to take into the due account is the heightened pleading standard imposed by the IDPPA and the more recent IDPA on fashion designers, especially when requiring to show that under the circumstances it can reasonable be inferred that the design was available to the copier, which may be excessively burdensome for a small or emerging designer and thus lead to a Not Enforce decision. I thus believe the IDPA should be modified under this aspect because of the risk of too high enforcement costs.

²⁷² For a detailed application of the prisoner's dilemma to the fashion industry see WONG, *To Copy or not to Copy, That is the Question: The Game Theory Approach to Protecting Fashion Designs*, cit., at 161-82.

3.3. The impacts of copying upon consumers

Along with claiming that copying is not harmful for designers on the ground that it drives sales, advocates in favor of low intellectual property protection argue that it also benefits consumers, making available cheap exact copies of popular fashion designs²⁷³.

As discussed above, this assumption rests on the status theory of fashion and mistakenly assumes that mass-market consumers want imitation of upper classes and not innovation to express their personal style. I believe, instead, that an intermediate level of intellectual property protection prohibiting close copying while allowing participation in common trends could enhance consumer welfare by realizing their desire of flocking and differentiation at the same time.

Under the current regime of low-IP protection, there is significant disparity between high-fashion consumers and consumers with less purchasing power²⁷⁴. Whereas elite consumers enjoy the most innovative designs even before they come to the market, consumers at lower price points have access only to a limited array of styles, that are either unfashionable designs or knockoffs of a number of pre-selected items identified as fashionable by the high-fashion consumers.

An intermediate-IP protection scenario would entail more innovation and allow consumers to choose based on where they are located in the flocking-differentiation spectrum. On one hand, differentiation-oriented consumers want designs that are new but not necessarily expensive because they are interested in expressing their identity and personality and not merely their status. Therefore, they are more willing to experiment with new styles and they often combine high-end items with fast fashion. On the other hand, flocking-oriented consumers buy fashion to conform with fashion norm and be part of the group. They are not interested in buying unique designs, but in conforming to the crowd. Since copying speeds up the trend cycle and drives it faster towards exhaustion, it leads to an economically wasteful behavior by conformity consumers, who feel compelled to spend large amounts of money to keep up with the latest style.

While it is true that in the short run, especially in one-shot games, there is a likelihood of increase in consumer welfare due to the availability of cheap copies, even Raustiala and Sprigman concede that a low-IP equilibrium may be suboptimal²⁷⁵. Without legal protection against copying, fast-fashion firms threaten designers by putting them at financial risk and denying them incentives to innovate because they cannot protect their original designs. This in the long run will lead to less innovation and a net negative effect on consumer welfare.

The enforcement of IP rights could turn the imitator into a more competitive innovator. It would incentivize fast-fashion copyists to undertake independent

²⁷³ See for example *The Copycat Economy*, *Bloomberg Businessweek* (Aug. 26, 2002), available at <http://www.businessweek.com/magazine/content/02_34/b3796612.htm> (commenting on the benefits of copying for consumers).

²⁷⁴ See HOWARD, *An Uningenious Paradox: Intellectual Property Protections for Fashion Designs*, cit., at 122.

²⁷⁵ See RAUSTIALA, SPRIGMAN, *The Piracy Paradox: Innovation and Intellectual Property in Fashion Design*, cit., at 1734 (“We ... do not claim that the current regime is optimal for fashion designers or for consumers”).

innovation by using their existing infrastructures and thus turn into fast-fashion designers, so preserving both the consumers' competing interests in innovation and the availability of fashion at cheap price.

3.4 *The impacts of copying upon the social welfare*

The contention that social welfare is better served in the no protection case as imitation leads to stronger exclusivity effects with rising prices and market expansion allowing mass market consumers to participate in the trend, is also based on wrong assumptions. First, fashion is not simply a status signal, but is a means of expression and thus it is not based exclusively on a snob effect, but on competing forces, that together inform the fashion cycle. Second, the intermediate level of intellectual property protection would not be extended to cover fashion trends, but only close copies and thus consumers would remain able to join common trends.

Another sign that the low-IP regime is suboptimal is the obstacles it poses on new designers seeking to enter the market²⁷⁶. While most of the major fashion houses are currently owned by a few multi-brand luxury group where decisions are made by managers based on the bottom line²⁷⁷, small fashion companies are usually controlled by the creator and are thus more likely to take risks on new styles. However, without design protection young designers are at a significant disadvantage rather than incentivized to create innovative products.

Whereas a well-known, long-lasting global brand like Gucci has great leverage in the marketplace thanks to its recognized quality and glamorous designs, a young designer has to build such a reputation through a personal and identifiable style that distinguish him from the others in the marketplace. Piracy substantially hinders a young designer's ability to do that because it "chips away at [his] credibility in terms of product and long-term customer education"²⁷⁸. In addition, the current almost simultaneous copying and the erosion of the designer's first-mover advantage give young designers a very short time to make an impression on consumers, thus rendering building brand awareness even more difficult.

Moreover, the lack of protection against copying does not affect only the amount of innovation, but also its direction, since it pushes fashion consumption and production toward the high-end luxury realm rather than a more polyvalent innovation. In particular, two distortions have been noted²⁷⁹. The first is toward designs that are legally more difficult to copy. Designers who are already

²⁷⁶ See HOWARD, *An Uningenuous Paradox: Intellectual Property Protections for Fashion Designs*, cit., at 118-121.

²⁷⁷ For instance, the two groups Kering and LVMH alone own a significant share of the luxury fashion market. The Kering group includes the brands Gucci, Saint Laurent, Bottega Veneta, Stella McCartney, Balenciaga, Alexander McQueen, etc. Part of the LVMH group are Louis Vuitton, Dior, Céline, Fendi, Givenchy, Emilio Pucci, Marc Jacobs, etc.

²⁷⁸ Statement of designer Phillip Lim in advocating for the DPPA, *CFDA Fights Fashion Forgeries*, available at <<http://thefashioninformer.typepad.com/informer/2008/01/cfda-fights-fas.html>>.

²⁷⁹ HEMPHILL, SUK, *The Law, Culture and Economics of Fashion*, cit., at 133.

protected by other forms of IP rights, such as trademark and trade dress, i.e. well-known brands, tend to create goods that are protectable by those rights through the display of logos, using it as an anti-copying device. This phenomenon of “logoification” adversely affects the variety of styles available in the marketplace and deprives fashion of its multifaceted meanings. The second distortion is toward designs that are naturally more difficult to copy because of expensive materials or craftsmanship.

Should design protection be granted, we would notice a shift of resources from developing brand-name or luxury goods to a more polyvalent language of fashion and a greater variety in fashion innovation. Therefore, the grant of an intermediate level of intellectual property protection covering original designs but not common trends would make the society as a whole better off because instead of a net effect of zero, it will produce a net positive effect on copier and designer, with copier deciding to redesign and designer not harmed by copying, while consumers would enjoy increased innovation at low price from fast-fashion designers redesigning works rather than copying them. The outcome would thus be not only equitable, because copier no longer free rides on designer’s creation, but also efficient, because all parties gain.

4. THE OPTIMAL SOLUTION: SUI GENERIS RIGHT

4.1 Tailored protection for original designs

Although fashion is an industry with its own peculiarities, I do not believe it to be so different from the other creative industries to justify not to apply the basic theory of incentives of intellectual property. I do recognize however the need for an industry-tailored protection and a right narrower than the usual copyright right, which is indeed what many countries have already done for industrial design and the US have started to do with some specific design industries, as seen in Chapter I.

The outlining of a sui generis right for fashion design raises several questions. Does fashion incorporate enough creativity to be eligible for intellectual property protection? What scope of protection should be granted and what standard of infringement should be adopted? Will courts be able to distinguish between a close copy and a broad trend?

Even though some bias of the past against expenditure on fashion are still to be overcome and fashion is not yet regarded as one of the “fine arts”, its essence of creative industry is now widely accepted. In the last decades, more and more initiatives have been taken in this respect. An increasing number of

books²⁸⁰ and documentaries²⁸¹ have been published about the main fashion personalities and some of the most high-regarded museums have hosted temporary exhibitions dedicated to the most influential and innovative designers²⁸². Fashion produces creative goods and innovation in fashion is as socially desirable as it is for other content industries such as those of books, movies or songs. As previously demonstrated, fashion does not make exception from the orthodox view of IP law that legal protection is needed to give innovators the incentives to innovate. Therefore, the question of fashion design protection is not an all-or-none choice, but it is rather a choice of scale.

I concur with those who claim that with its nearly perpetual and all-encompassing protection a standard copyright right would encroach on the public domain and promote monopolistic behaviors. Moreover, since it would essentially give a single firm control over the exploitation of a trend, it would raise the problem of ownership. Since a trend feature is not the result of a single designer's creation or investment, but it arises instead in a collective way from mutual influences and inspirations among designers, it would be complicated and costly identifying those designers and negotiating with them the use of such a feature, especially considered that many products would likely infringe multiple features.

The most appropriate solution seems thus to be a narrower *sui generis* right, specifically tailored to the need of commercial design to balance creativity with practicality. Under this *sui generis* protection, designers should be prevented from close copies while they should remain free to build upon existing works through quotation, borrowing and inspiration. A first difference with copyright law would thus be the exclusion of the derivative works right from the design right, because reinterpretation is a common practice in the fashion industry, but one that may be lost if exclusive rights over derivative works were granted.

²⁸⁰ See for example *"The World According To Karl"* (Flammarion/Rizzoli New York) about Chanel's designer Karl Lagerfeld; *"Alexander McQueen: Unseen"* (24 ore cultura) collects photos of his 1994-2010 shows; *"Grace. The American Vogue Years"* (Phaidon) portraits 15 years of the legendary U.S. Vogue's art director; *"Gisele. Gisele Bündchen"* (Taschen) is a limited edition book with the most famous shots of the Brazilian top model sold for a price of 700 US dollars.

²⁸¹ The movie *"Franca. Chaos & Creation"* dedicated to Editor-In-Chief of Italian Vogue Franca Sozzani was presented at the 2016 Venice Film Festival. It was not however the first time a fashion documentary made it to the prestigious festival, since in 2008 *"Valentino: The Last Emperor"* already took the stage.

²⁸² The prime example is probably The Costume Institute of the Metropolitan Museum in New York, that with its collection of more than 35,000 costumes and accessories from the fifteenth century to the present aims to "promote a more profound historical and theoretical understanding of costume in order to advance fashion as an art form and encourage the study of fashion as a serious academic discipline." <http://www.metmuseum.org/about-the-met/curatorial-departments/the-costume-institute> The Costume Institute's two annual exhibitions have become the most important fashion exhibitions worldwide. Interestingly, the spring 2016 exhibition *Manus X Machina: Fashion In An Age of Technology*, which featured more than 170 examples of haute couture and avant-garde ready-to-wear dating from the early 1900s to the present, explored how fashion designers are reconciling the handmade and the machine-made in their creations. Among the main initiatives in 2017 there are an exhibition dedicated to designer Cristobal Balenciaga at the Victoria & Albert Museum in London and *Get a Life*, in Shanghai, promoted by designer's Vivienne Westwood foundation, which is a fusion of fashion and art, through the lens of activism for the ecology.

Some have argued that the distinction between a copy and an interpretation of a broad trend require courts to make subjective comparison of two works and can accordingly raise difficult line-drawing problems²⁸³. However, even though actually complicated in some cases, this is what courts are called to do on a daily basis and evidence from the application of other national design law and the Architectural Works Copyright Protection Act and the Vessel Hull Design Protection Act in the U.S. shows how they are doing that on a case-by-case analysis. In fact, European laws protects only designs that are new and have individual character and under both the AWCPA and the VHDPa protection is excluded for standard features, that are staple or common place, whereas it is extended to the selection, coordination, or arrangement of unprotectable elements into an original work. Therefore, courts are not new to this approach.

In the attempt to find a balance between, on the one hand, providing an incentive to create new works, and on the other hand, promoting the two goals of making existing works available to consumers and making material available for use by subsequent innovators, a sui generis right provides designers with as limited a protection in terms of length and breadth, as is necessary to stop free-riders²⁸⁴. This aim can be pursued through a shorter duration of design monopoly, limited to the time necessary for designers to reap the benefits of their investments, and a lower degree of originality requirement, more convenient for a design that serves a utilitarian function. “In this sense, design rights can be seen as operating along a sliding scale, with the more creative and less commercial products receiving the full range of protection afforded by copyright, while the more utilitarian goods receive protection that is more attenuated”²⁸⁵.

4.2 Outlining a solution for the U.S.

Based on the comparison with other national design laws in Chapter I and the economic analysis of fashion consumption in this Chapter, I will now try to

²⁸³ See Hearing on Design Law: Are Special Provisions Needed to Protect Unique Industries? 110th Congress, February 14, 2008 (statement of Rep. Berman) (“This whole notion—I mean, Mr. Rodriguez, in your testimony, you talk about your traveling to get ideas and inspiration for your designs. You are affected by what you see out there. My guess is you are not out there to copy what somebody else has done. For you, it is like so much else, I am sure. Previously written music affects new music, but it is not copied. Mr. Maiman, you talk about—well, let me ask you. In your business, do you sell products which you have essentially, “I saw this hot design out there; we are going to sell this”—my designers go out and basically copy that design because we think this will sell... If I could just get both of you engaging on this whole notion of where is the line between inspiration and copy.” (Questioning Designer Narciso Rodrigues and Steve Maiman.)) (statement of Rep. Sherman) (“Let’s say we had good laws in this country and it was back at the Gold Rush, and he filed for the appropriate protection. Should we allow somebody else to make canvas pants? Should somebody else be allowed to make blue canvas pants? Should somebody else be allowed to make blue canvas pants that were indistinguishable by a lay person from Levi’s own design? Assuming everything Levi did was unique, what do we let the next person do?”).

²⁸⁴ See MONSEAU, *The Challenge of Protecting Industrial Design in a Global Economy*, cit., at 539.

²⁸⁵ HOWARD, *An Uningenious Paradox: Intellectual Property Protections for Fashion Designs*, cit., at 127.

outline what would be the optimal solution for the U.S. in order to provide fashion design with adequate intellectual property protection and align with other major fashion centered countries. I will hence consider the main features of the U.S. proposed legislation and illustrate which ones I think are well-suited for the fashion industry and which ones should instead be changed.

As previously illustrated, the IDPPPA of 2010 and the IDPA of 2012 drop the DPPA's registration requirement and grant fashion design three years of automatic protection from the date the design is first made public. Although the registration requirement has the advantage of placing on designers control over their rights, leaving up to them the decision on whether to seek protection or allow the dissemination of copies, I believe its abolition is a beneficial option for emerging designers and small businesses who do not have the resources to register all of their designs. In addition, as it has been observed, the three years term of protection is particularly appropriate for the fashion industry because "it will allow designers time to develop their ideas in consultation with influential editors and buyers prior to displaying the work to the general public, followed by a year of exclusive sales as part of the designer's experimental signature line, and another year to develop diffusion lines or other mass-market sales"²⁸⁶.

Even though some commentators have argued that a shorter protection of one or two years would be enough²⁸⁷, I believe the term of three years is a good compromise in order to ensure designers the first-to-market advantage but limited to the short period necessary to recoup their investment, without stifling consumers' interest in free competition. In addition, since protection starts from the date on which the design is first made public and thus includes the six-month gap between the runway debut and its appearance on market, this would essentially provide new designers who do not show at fashion weeks with a six-month bonus of exclusive sales, as their public debut would date from when their designs first arrive in stores. Moreover, in the frame of a global market, this proposed legislation would provide international fashion companies with the same duration of design protection under both U.S. law and the EU UDR.

Another merit of the IDPPPA and then the IDPA is that of finally nailing down the standard of originality required in order to obtain design protection. The bills, in fact, protect only designs which "provide a unique, distinguishable, nontrivial and non-utilitarian variation over prior designs for similar types of articles"²⁸⁸ and extend protection to designs that include subject matter otherwise unprotectable "if the design is a substantial revision, adaptation, or rearrangement, of such subject matter"²⁸⁹. The fashion bills thus use the VHDP's standard of originality as a framework for a sui generis design right and then introduce an additional provision that tailors it specifically to fashion. It is in

²⁸⁶ See *supra* note 231.

²⁸⁷ See FANELLI, *A Fashion Forward Approach to Design Protection*, cit., at 308-309; see also HOWARD, *An Uningenious Paradox: Intellectual Property Protections for Fashion Designs*, cit., at 129.

²⁸⁸ S. 3728 § 2(a); S. 3523 § 2(a).

²⁸⁹ 17 U.S.C. § 1303.

fact further established that the “presence or absence of a particular color or colors or of a pictorial or graphic work imprinted on fabric” shall not be considered in determining the protection of a fashion design²⁹⁰.

Therefore, the law on one hand makes definitively clear that standardized features would not be protectable but would remain in the public domain, enabling subsequent innovators to draw freely upon them and on the other hand, it reflects the lower degree of originality conceivable in a design that serves an utilitarian function. I thus find that the proposed legislation extending IP protection to fashion design does not threaten innovation and creativity more than the AWCPA has done for buildings, the SCPA for semiconductor masks and the VHDPa for vessel hulls.

The main change the IDPPPA and IDPA made from the DPPA is the replacement of the “substantially similar” infringement standard with the “substantially identical” standard, under which infringement occurs only when an article is “so similar in appearance as to be likely to be mistaken for the protected design and contains only those differences in construction or design which are merely trivial”²⁹¹. This point has been the object of a lively debate between those who believe that the substantially identical standard is more appropriate to avoid an overprotective regime²⁹² and those who claim it would be overly challenging for plaintiffs to allege infringement²⁹³.

I agree that a higher standard of infringement well suits fashion design because, given the common practice in the industry of design borrowing, it would allow designers to take inspirations from others’ creations without fear of an infringement suit. However, I fear that such a heightened standard would eventually be too demanding and result in an underprotective regime, where copyists continue to free-ride on designers’ creativity. Therefore, the same result could be better achieved by maintaining the same “substantial similarity” standard of the Copyright Act and the VHDPa on one hand, and expressly eliminating any derivative works right from the design right on the other hand. In this way, courts would not be faced with an unfamiliar language and a chilling effect on further innovation by subsequent designers would be prevented. Under such regime, an infringing article should thus be substantially similar *and* not distinct enough to constitute a derivative work²⁹⁴. This would also be in accordance with the IDPPPA

²⁹⁰ S. 3728 § 2(c).

²⁹¹ S. 3728 § 2(a)(10); S. 3523 § 2(a)(11).

²⁹² See RAUSTIALA, SPRINGMAN, *The Piracy Paradox: Innovation and Intellectual Property in Fashion Design*, cit. See also FANELLI, *A Fashion Forward Approach to Design Protection*, cit. and MONSEAU, *The Challenge of Protecting Industrial Design in a Global Economy*, cit.

²⁹³ See HOWARD, *An Uningenious Paradox: Intellectual Property Protections for Fashion Designs*, cit.

²⁹⁴ This approach is essentially the same of Professors Hemphill & Suk, but use a different language to maintain the usual standard of copyright liability and facilitate its application. See HEMPHILL, SUK, *The Law, Culture and Economics of Fashion*, cit., at 139-142. They proposed a “substantial dissimilarity” standard of infringement, excluding liability when a designer “copies protectable expression from an earlier work, yet also makes significant changes” in order to prohibit only line-for-line copies and support differentiation amidst flocking.

and IDPA's choice to provide a limited protection against copying only, excluding infringement of designs that are independently created²⁹⁵.

The purpose of the law is prohibiting design piracy, not stifling the independent creativity of other designers. This approach would definitively draw the line between inspiration and plagiarism and clearly establish that only close copyists would incur in liability, whereas designers borrowing, adapting, or rearranging previous works would not be affected. In addition, the exception from infringement of independently created articles provide U.S. designers with the same protection granted by the EU Unregistered Design Right (UDR) and thus ensure a certain degree of harmonization under both the scope of protection and duration of a design right.

Finally, another aspect of the IDPPPA and IDPA I think should be modified is the heightened pleading standard they have introduced²⁹⁶. In particular, by requiring plaintiffs to plead with particularity facts establishing that the protected design or an image thereof was available in such locations and for such duration "that it can be reasonably inferred from the totality of the surrounding facts and circumstances that the defendant saw or otherwise had knowledge of the protected design", the costs of enforcement will be too high and especially young designers with small resources would be at a significant disadvantage in bringing a lawsuit. I thus believe this requirement should be eliminated.

To sum up, I agree that the IDPPPA and IDPA represent an improvement over previous bills, but I believe additional changes should be made to better serve fashion design's needs. The U.S. have been laying down other countries even too long and it is now time to take action.

²⁹⁵ S. 3728 § 2(e); S. 3523 § 2(f)(3)(b).

²⁹⁶ S. 3728 § 2(g)(e)(1); S. 3523 at § 2(g)(e)(1). *See supra* note 179.

III: BUILDING A GLOBAL BRAND PROTECTION STRATEGY IN TERRITORIAL IP LEGAL SYSTEMS

In this final chapter, through the analysis of the phenomenon of counterfeiting first, and then a case study, I aim to illustrate how the discrepancies among the different legal systems create a situation of fragmentation that negatively affects global fashion companies, making difficult for them to adopt common strategies and obtain uniform protection in different countries. I will thus focus on the effects of that fragmentation and the measures taken by designers and their lawyers to address them.

1. COUNTERFEITING: BLAMED BUT NOT ENFORCED

While previous discussion was all focused on design piracy, the first part of this chapter focuses on counterfeiting, that is “the act of manufacturing or distributing a product or service bearing a mark that is identical to or substantially indistinguishable from a registered trademark”²⁹⁷.

Although counterfeit goods often copy the brand marks as well as the design in order for them to be passed off as originals, the distinction is relevant because the two forms of infringement are covered by different bodies of IP law, that are design and/or copyright law for the former and trademark law for the latter.

1.1 The crime of the twenty-first century

Data show that in recent years the phenomenon of counterfeiting has been expanding enormously, with a growth of 1.850% within the period 1994-2011 and a global revenue of USD 600 billions, estimated to have reached in 2015 USD 1.700 billions, if considered transnational commerce (USD 960 billions), national commerce (USD 370-570 billions) and digital commerce (USD 240 billions) combined²⁹⁸.

Some studies have further observed that profits from counterfeit goods production and trafficking may exceed those of illicit drug trafficking and

²⁹⁷ JIMENEZ, KOLSUN, *Fashion Law: A Guide for Designers, Fashion Executives and Attorneys*, cit., at 139.

²⁹⁸ Dossier sulla Contraffazione, Realizzato da Libera. Associazioni, nomi e numeri contro le mafie, Coordinamento della Lombardia, available at <<http://www.sportelliriemergo.it/sites/default/files/files/DOSSIER%20CONTRAFFAZIONE%20-Sportelli%20RiEmergo.pdf>>.

production²⁹⁹. This high profits caused criminal groups to be no longer solely confined to the duplication of apparel and accessories, expanding counterfeiting to all sectors, such as pharmaceuticals, electronic goods, household products, cosmetics, automotive spare parts, pesticides, food and beverages, etc., posing higher risks to the safety and health of consumers.

This fast and intensive increasing in counterfeiting activities is driven by several factors, that combined made the process easier and more attractive for criminal organizations, making of counterfeiting “the crime of the twentyfirst century”³⁰⁰. First, the globalisation and the new technologies allowed immediate access to new designs and facilitated all areas of the supply chain, such as manufacture, distribution, ordering and purchasing. Under this profile, the same considerations made in Chapter II with respect to design copy apply, so I suggest referring back to them.

More specifically tied to counterfeiting is instead the creation of free markets and free trade zones (FTZs), which are increasingly used as locations to change, document and relabel container loads, not only to conceal the place of origin of the goods (that is the key risk indicator for Customs administrations), but also to complete the manufacturing process by adding trademarks or packaging³⁰¹. FTZs are “designated areas within jurisdictions in which incentives are offered to support the development of exports, foreign direct investment, and local employment. These incentives include exemptions from duty and taxes, simplified administrative procedures, and the duty free importation of raw materials, machinery, parts and equipment”³⁰².

As a consequence, FTZs often have different levels of oversight and management across jurisdictions and organized crime groups exploit those mechanisms to their benefit. In the case of the EU, once goods have entered the EU free market they can freely circulate across the borders of its member states, making it even more difficult for customs officers to detect them.

In particular, since the importation of unmarked goods is not a crime and

²⁹⁹ According to the International Institute of Research against Counterfeit Medicines (IRACM), USD 1 000 invested will generate a return of USD 20 000 in the trafficking of heroin or a return of USD 43 000 for counterfeit cigarettes. With the same investment in counterfeit pharmaceuticals, crime groups can expect a return of USD 500 000.

See also 2015 *Situation Report on Counterfeiting in the European Union, A Joint Project between Europol and the Office for Harmonization in the Internal Market*, April 2015 available at <<https://euipo.europa.eu/ohimportal/documents/11370/80606/2015+Situation+Report+on+Counterfeiting+in+the+EU>>.

³⁰⁰ See International Anti-Counterfeiting Coalition, *The International Anti-Counterfeiting Coalition Facts on Fakes*, available at <<http://counterfeiting.unicri.it/docs/The%20International%20Anti-Counterfeiting%20Coalition.Facts%20on%Fakes.pdf>>, citing G. W. ABBOTT, L. S. SPORN, Trademark Counterfeiting § 1.01 (2001).

³⁰¹ See World Economic Forum Global Agenda Council on Organised Crime: ‘Organised Crime Enablers’, July 2012 (“counterfeiters use the transit or trans-shipment of goods through multiple geographically diverse ports as a means to disguise the nature of the product and make it more difficult for law enforcement to track this activity (...) counterfeiters also import unfinished goods and then further manufacture them in FTZs by adding counterfeit trademarks, or repackage or relabel the goods (...) complete manufacturing of counterfeit goods also takes place in FTZs”).

³⁰² FATF Report: *Money Laundering Vulnerabilities of Free Trade Zones*, March 2010.

they thus cannot be seized by customs agencies, counterfeiters wait to collect the goods from the point of entry to attach them locally printed counterfeit trademark labels before selling them. In some cases, counterfeiters have even registered their own intellectual property rights, allowing them to legally import goods which are then turned into counterfeits at the point of sale through the exchange of branded labels.

Although the majority of counterfeit products in circulation in the EU are produced in non-EU countries - China in first place -, the *2015 Situation Report on Counterfeiting in the European Union*, released by the OHIM and Europol, has highlighted domestic EU production originating from Belgium, the Czech Republic, Spain, Italy, Poland, Portugal, and the UK, noting that “imports from Asia may no longer be the most cost-effective option for counterfeiters wishing to avoid checks at external EU borders, thus lowering risks and transport costs. Even if counterfeiters are arrested, and production facilities seized, penalties are low, profit margins are high, and OCGs can move quickly to neighbouring EU MS to set up replacement production facilities after raids”³⁰³.

Another major driver of counterfeiting is in fact the low level of penalties and, even in the more severe jurisdictions, such as Italy that punishes the purchase of counterfeit goods under criminal law, the minimum level of enforcement. Quite surprisingly given the cross-border nature of the offense, there is no harmonization of the law under this aspects. The amount of legal costs that can be recovered by rights holders who are successful in civil proceedings vary widely from one Member State to another and in some States (Italy, Lithuania, Netherlands, Portugal, the Czech Republic, Denmark, Germany, Estonia, Ireland, Greece, Slovenia and Sweden) the rights holders are deterred to bring a lawsuit by the onus to prove intentional or neglectful infringements of their trademarks in order to receive damages.

Moreover, rights holders are liable for storage costs, which may become prohibitively high in case of long court proceedings. In terms of destruction costs, the State usually bears the costs in criminal proceedings and the infringer in civil proceedings but in Customs proceedings the costs of destruction and storage are placed on right holders. This has been said to be “the equivalent of being presented with an invoice by the police after your home has been burgled”³⁰⁴ and has led to the unfavorable effect that some companies have asked law enforcement authorities to stop seizing counterfeit products infringing their trademark, resulting in those counterfeits being released onto the market.

The low resources allocated to anti-counterfeiting measures is the result of governmental policies linked to a high level of social acceptance for the phenomenon among consumers. “A large majority of EU citizens display strong support for IP and yet consider that at a personal level, breaking the rules may be justified to cope with the consequences of limited purchasing power or to protest against an economic model driven by the market economy and premium

³⁰³ *2015 Situation Report on Counterfeiting in the European Union, A Joint Project between Europol and the Office for Harmonization in the Internal Market*, April 2015, at 17.

³⁰⁴ *Id.*, at 40.

brands”³⁰⁵. A survey conducted in the UK found that 64% of consumers of counterfeit goods readily “admit to friends and peers that they buy fake”³⁰⁶. However, cultural differences should be taken into account when addressing consumers’ behaviour. For instance, in Hong Kong it is considered important to display the trappings of wealth and wear the right brand, but there is a fear of being seen with fake goods as this would cause a huge harm in terms of reputation³⁰⁷.

Accordingly, “cases are often extremely complex, involving many different jurisdictions and, sometimes, a lack of knowledge or specialist understanding of the various components in these types of crimes by law enforcement authorities, prosecutors and the judiciary can allow OCGs to go unpunished”³⁰⁸. It is thus important to undertake awareness campaigns that involve not only consumers but also enforcers, in order to raise the level of moral disapproval and legal punishment against counterfeiters.

1.2 Customs issues. The China Enforcement Case

The lack of harmonization among the different jurisdictions for the transnational phenomenon of counterfeiting called for action at an international level. The TRIPS Agreement in fact recognized “the need for a multilateral framework of principles, rules and disciplines dealing with international trade in counterfeit goods”³⁰⁹. As previously noted, particularly sensitive is the issue of customs, which would require a coordinated, multi-agency response.

The inadequacy of the measures taken as yet became apparent in the well-known *China Enforcement Case*³¹⁰, where the United States filed a complaint against China under several grounds of the TRIPS Agreement with respect to intellectual property. First, the US claimed that China’s threshold levels for criminal measures and sanctions against counterfeiting and piracy of copyrighted works violated Articles 41.1 and 61 of the TRIPS Agreement. Second, they alleged that the Chinese practice of removing infringing marks and releasing the goods back into commerce violated Articles 46 and 59 of TRIPS. Third, they found that the lack of criminal penalties for commercial distribution and reproduction of copyrighted materials violated TRIPS Articles 41.1 and 61.

³⁰⁵ *Id.*, at 38.

³⁰⁶ Ledbury Research, *Counterfeiting Luxury: Exposing the Myths*, 2nd edition, London, Davenport Lyons, 2007, 21.

³⁰⁷ See WIPO Magazine, Special Edition for the Fourth Global Congress on Counterfeiting and Piracy, February 2008: “*Culture Shock: comparing consumer attitudes to counterfeiting*”.

³⁰⁸ *2015 Situation Report on Counterfeiting in the European Union*, cit., at 35.

³⁰⁹ TRIPS Agreement, pmb. 2.

³¹⁰ Panel Report, China - Measures Affecting the Protection and Enforcement of Intellectual Property Rights, ¶ 7.399, WT/DS362/15 (Jan. 26, 2009) (adopted Mar. 20, 2009) [hereinafter Panel Report]. See E. YAO XIAO, *The New Trend: Protecting American Fashion Designs Through National Copyright Measures*, 28 *Cardozo Arts & Ent. L.J.* 405, 408-411 (2010).

Last, they claimed that China's denial of copyright and related rights for censored works violated Articles 9.1, 14 and 3.1 of TRIPS. I will focus my discussion on the second issue.

China had a compulsory scheme for Customs officials to destroy the seized counterfeit goods only when no other measure was available, since they first had to be donated to charities, sold back to the copyright holder, or auctioned after removal of the illegal trademarks³¹¹. Article 46 of TRIPS states that "in regard to counterfeit trademark goods, the simple removal of the trademark unlawfully affixed shall not be sufficient, other than in exceptional cases, to permit release of the goods into the channels of commerce". Article 59 of TRIPS further states "without prejudice to other rights of action open to the right holder and subject to the right of the defendant to seek review by a judicial authority, competent authorities shall have the authority to order the destruction or disposal of infringing goods in accordance with the principles set out in Article 46. In regard to counterfeit trademark goods, the authorities shall not allow the re-exportation of the infringing goods in an unaltered state or subject them to a different customs procedure, other than in exceptional circumstances".

The Dispute Settlement Body (DSB) found that with the exception of the practice of removing infringing trademarks and realising the goods back into commerce³¹², the Chinese Customs procedures did not violate the TRIPS Agreement. The Panel found no indication that Article 59 of TRIPS specifies only certain types of remedies against infringement and reasoned that "the obligation that competent authorities "shall have the authority" to make certain orders is not an obligation that competent authorities shall exercise that authority in a particular way"³¹³. Most importantly, the Panel also found that the customs measures were not subject to Article 59 of the TRIPS because it applied only to imports and most of the infringing goods seized at China's border were exports, concerning which China has no TRIPS obligations³¹⁴.

This is a weakness of TRIPS: it imposes no export obligations at the borders, only import obligations, the assumption apparently being that if every country has effective import border regulations re IP, there will be no need of any export regulations. However, this has proved not to be true, since counterfeiting is still a widespread phenomenon and counterfeit goods flow from one country to another, with counterfeiters working around the law and exploiting flaws in customs controls. For example, training provided to customs authorities usually focuses only on the end product and not on the ancillary products such as warranty papers, certification marks, instruction manuals, labels, empty packaging, etc., which are thus often overlooked, allowing counterfeiters to evade

³¹¹ Panel Report, cit., at ¶ 7.197.

³¹² With respect to imports, although auctioning of goods is not prohibited by Art. 59, the Panel concluded that the way in which China's customs auctions these goods was inconsistent with Art. 59 considered in conjunction with Art. 46, because it permits the sale of goods after the simple removal of the trademark in more than just exceptional cases.

³¹³ Panel Report, cit., at ¶ 7.238.

³¹⁴ *Id.*, at ¶ 8.1(b)(i).

detection and later assemble and package products for distribution³¹⁵.

“Research indicates that daily enforcement of IPR across the EU is piecemeal and fragmented, reliant on individual officers or departments with an interest in IP enforcement to tackle the phenomenon effectively”³¹⁶. This is also due to the fact that the large number of public and private anti-counterfeiting organizations acting in the field may not coordinate well and act in a disorganised way³¹⁷.

Moreover, the counterfeit fashion industry has different contributory components that are often carried out in different countries by a combination of legal and illegal organizations. “The main problem for law enforcement is in being able to work with counterparts elsewhere because counterfeiting chains have many local, national and international global links that are to be found in societies with very different cultures and legal systems and values”³¹⁸.

Therefore, there is a need for more global responses and “this means building a comprehensive and proactive strategy to focus on raising current levels of awareness and to provide enforcers with the knowledge and tools they need to work together and take effective remedial action”³¹⁹. This could be fulfilled also with the creation of a multidisciplinary and multi-agency taskforce, similar to that of the US National IPR Coordination Center, that brings together all government and law enforcement agencies involved in anti-counterfeiting activities and that by sharing resources, knowledge and good practices could build a more complete picture and a more integrated approach³²⁰.

1.3 A new era. The e-commerce

Nowadays, “the Internet is the most significant enabler for the distribution of counterfeit goods, because of its apparent anonymous character, its ability to operate across various jurisdictions, and its potential for presenting sophisticated replicas of official web shops”³²¹. The threat becomes even more serious if considered that counterfeiters can shield their actual identity by using false names and addresses and take down and set up new websites overnight without losing their customer base, thus making almost impossible to track them.

In addition, since counterfeiters’ websites now duplicate the legitimate sites extremely accurately by usage of high-quality pictures and detailed

³¹⁵ See 2015 Situation Report on Counterfeiting in the European Union, cit., at 50.

³¹⁶ *Id.*, at 51.

³¹⁷ See <https://oami.europa.eu/ohimportal/documents/11370/80606/Inter-agency+cooperation+at+national+and+international+level>.

³¹⁸ WALL, LARGE, *Locating the Public Interest in Policing Counterfeit Luxury Fashion Goods*, cit., at 23.

³¹⁹ See 2015 Situation Report on Counterfeiting in the European Union, cit., at 6.

³²⁰ *Id.*, at 51.

³²¹ *Id.*, at 5.

information, consumers are often deceived to believe they are buying from authorized dealers and it is only when they received the goods that they find out they are actually fakes, but at this point they are usually left without remedy, as they are not provided with legitimate contact information of the seller. This has been made even worse by the introduction by the Internet Corporation for Assigned Names and Numbers (ICANN) of the so called new “generic Top Level Domains” (gTLDs) such as .sport, .fashion, .movie, .market, etc. that may confuse consumers even more as to legitimacy of the source. In the U.S., several major fashion houses, including Hermès, Burberry and Estée Lauder Cos. Inc., successfully sued counterfeiters under the Anticybersquatting Consumer Protection Act, which prohibits willful registering, trafficking in, or using a domain name to profit from the goodwill of someone else’s trademark³²².

The picture is further complicated by the fact that counterfeiters no longer rely solely on their own websites, but also on auction sites like Ebay, and on social networks sites like Facebook or Instagram³²³. As an example, in December 2013, a coordinated initiative by the UK Anti-Counterfeiting Group (ACG) reported 650 traders to Facebook for removal of infringing images and nearly 200 hundred additional traders were identified in the ACG’s second operation the following year³²⁴. Several luxury fashion houses also brought lawsuits in different jurisdictions against the online marketplace Ebay, allegedly facilitating the counterfeit industry with its numerous listings of counterfeit items.

This raised the problematic issue of liability of Internet service providers (ISPs) and third parties, like payment processing companies, search engine optimization companies and registrars, with opposite outcomes in the different jurisdictions. In *Tiffany v. Ebay*³²⁵, the U.S. District Court and later the Second Circuit ruled against Tiffany on all claims, holding that the test for contributory trademark infringement by an online marketplace is that the ISP must have “more than a general knowledge or reason to know that its service is being used to sell counterfeits”³²⁶. In order for it to be held liable, Tiffany must prove that eBay continued to supply its services to “one whom it knows or has reason to know is engaging in trademark infringement”³²⁷, but the court found that Tiffany’s reporting through VeRO, its notice that counterfeit goods were sold, and its

³²² Anticybersquatting Consumer Protection Act, 14 U.S.C. § 1125(d).

³²³ JIMENEZ, KOLSUN, *Fashion Law: A Guide for Designers, Fashion Executives and Attorneys*, cit., at 155.

³²⁴ See 2015 Situation Report on Counterfeiting in the European Union, cit., at 34.

³²⁵ *Tiffany Inc. v. eBay Inc.*, 576 F. Supp. 2d 463, 505 (S.D.N.Y. 2008), *aff’d*, 600 F.3d 93 (2d Cir. 2010).

³²⁶ *Id.*, at 518.

³²⁷ *Id.* at 508 (quoting *Inwood Labs., Inc. v. Ives Labs., Inc.*, 454 U.S. 844, 854(1982)). Under *Inwood*, “If a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorially responsible for any harm done as a result of the deceit”. See B. PEENE, *Lux for Less: eBay’s Liability to Luxury Brands for the Sale of Counterfeit Goods*, 40 *Seton Hall L. Rev.* 1077 (2010).

removal requests only provided Ebay with general knowledge of illegal activity and were thus insufficient to establish liability.

In addition, the court found that, although 73% of the allegedly authentic Tiffany product sold on Ebay were proved to be fakes, Ebay was undertaking extensive efforts to prevent the sale of fake goods, since it maintained a twenty million dollars per year anti-counterfeiting program, which included a buyer protection program, a fraud engine, and especially the Verified Rights Owner (VeRO) system, allowing rights holders to check items on sale and notify Ebay if they are counterfeit, in order for them to be removed. In addition, the court noted that when Ebay had specific knowledge of particular infringing listings, it promptly terminated the listings and suspended the seller.

On the contrary, just a few weeks earlier France's Commercial Court of Paris ruled against Ebay in a similar suit brought by Louis Vuitton and Christian Dior, awarding the French houses a total of 63.2 million dollars in damages³²⁸. The French court held that, since it received a commission based on its services, Ebay was not simply a forum for buyers and sellers to interact, but was also a broker participating in the actual transactions. Therefore, acting as an intermediary between buyers and sellers, in the court's view Ebay was not entitled to the liability protection that French or EU law limited to "hosters"³²⁹, who are instead merely technical-service providers.

Based on these assumptions, the court ruled that Ebay's status as a broker signified both knowledge and control over its forums and listings. In contrast to the American Tiffany decision, the French court found that Ebay's awareness of general counterfeiting activity without specific knowledge of particular listings meant it had actual knowledge of infringement. In addition, the court also held that Ebay failed to adequately police counterfeit goods in transactions, finding that the measures taken were insufficient. A similar conclusion was reached by the European Court of Justice in the case *L'Oreal v. Ebay*, where Ebay was deemed to play an "active role" for instance by optimizing the presentation and promoting the goods for sale and under EU law could thus not be exempted from liability³³⁰.

Despite the differences, these cases show that although as a general rule rights holders bear the primary responsibility to police their trademarks, online

³²⁸ *Louis Vuitton Malletier v. eBay Inc.*, Tribunal de Commerce, Paris, June 30, 2008; *Christian Dior Couture, SA v. Ebay Inc.*, Tribunal de Commerce, Paris, June 30, 2008.

³²⁹ Under Article 6-1-2 of the French Law for Confidence in the Digital Economy, based on Article 14 of the EU Directive on Electronic Commerce 2000/31/EC, "hosters" are: "Individuals or entities that provide, even gratuitously, for provision of public services to the public online communication, the storage of signals, writings, images, sounds or messages of any kind provided by recipients of these services may not incur liability as a result of activities or information stored at the request of a recipient of these services if they did not have actual knowledge of their unlawful character or facts and circumstances showing that character or if, from the moment they had this knowledge, they acted promptly to remove such data or make access impossible. The preceding paragraph does not apply when the recipient of service is acting under the authority or control of the person referred to therein".

Law No. 2004-575 of June 21, 2004, Journal Officiel de la République Française [J.O.] [Official Gazette of France], June 22, 2004, p. 11,168 (translated from French).

³³⁰ See *L'Oreal SA v. eBay Intl AG*, C-324/09.

market places are increasingly encouraged to arrange anti-counterfeiting systems, and in particular prevention measures. For example, Alibaba recently took down 114 million websites in a period of only 10 months and has introduced the e-commerce site tmall.com⁴³, requiring its members to pay a large deposit and agree to a code of conduct which, if they are found in breach, will result in the loss of their deposit.

Within this fragmented framework, however, the extent to which an online market place like Ebay is required to police its website depends on the different interpretations given to the law in the different jurisdictions and the degree of knowledge required for them to take action. In fact, while the French court interpreted actual knowledge as a general knowledge of counterfeiting activities, the American court in *Tiffany* found that to be held liable Ebay must have specific knowledge of an infringing listing and fail to adequately take action, being insufficient a general knowledge³³¹. The regulation of e-commerce is therefore another subject that needs to be harmonized, in order to provide the different players with certain rules and avoid the risk of forum shopping³³².

To conclude with third parties liability, in *Gucci America v. Frontline Processing*, the Southern District of New York found against a company that provided payment processing for online counterfeit merchants on the grounds that the merchant's business was "functionally dependant" on its service and it thus either knew or should have known that it was servicing an infringing site³³³. This same position has also been taken by the OHIM and Europol in their Report, where they openly declared a "special focus on the online environment"³³⁴ and they highlighted the effectiveness of the "follow the money approach", targeting advertising revenues and payment intermediaries as a tool in the fight against counterfeiters³³⁵. Similarly, to cut off monetary transfers to foreign websites engaging in counterfeiting activities, in 2012 the U.S. introduced the Online Protection and Enforcement of Digital Trade Act (OPEN)³³⁶, allowing right holders to petition investigations of the International Trade Commission (ITC).

1.4 Organized crime and governmental policies

As previously illustrated, the high profits combined with the low levels of perceived risk made counterfeiting activities very attractive to organized criminal groups (OCGs), especially if compared to other traditional areas of crime in which they are often involved, such as drug trafficking, facilitation of illegal migration,

³³¹ PEENE, *Lux for Less: eBay's Liability to Luxury Brands for the Sale of Counterfeit Goods*, cit., at 1100-1101.

³³² *Id.*

³³³ *Gucci America, Inc. v. Frontline Processing Corp.*, 721 F.Supp.2d 228 (2010).

³³⁴ *2015 Situation Report on Counterfeiting in the European Union*, cit., at 3.

³³⁵ *Id.*, at 5.

³³⁶ Online Protection and Enforcement of Digital Trade Act, H.R. 3782, 112th Cong. (2012).

human trafficking and money laundering, which are characterized by high risks and high investments.

However, even though the relationship between counterfeit luxury goods and organized crime is now commonly recognized³³⁷, while most countries consider drugs and human trafficking to be the top priorities in terms of fighting organised crime, some of them do not include IP Crime on the list. This results in low allocation of resources, no specialised IP Crime Unit, a lack of interest in the crime area, as well as a lack of awareness and training for enforcement, judiciary and prosecution officials³³⁸.

In order to give a comprehensive picture of the phenomenon (at least in the EU), in 2015 the Office for Harmonization in the Internal Market (OHIM) and The European Police Office (Europol) through the European Observatory on Infringements of Intellectual Property Rights were tasked with writing a Situation Report on Counterfeit Goods in the EU³³⁹. The Report has highlighted how counterfeiting has been evolving from small local businesses to a major industry organized by criminal networks, with international logistics, supply and distribution networks and subsequent money laundering facilities in place.

In fact, in order to manufacture, transport, store, distribute and sell the products, OCGs need a robust and effective supply chain, made of not only manufacturers, but also experts such as lawyers, accountants, technicians, chemists, engineers, cyber experts, etc³⁴⁰. The Report has also noted how organised crime networks originating from different countries in and outside the EU are developing closer ties, having recognised the possible synergies of working together³⁴¹.

A good example of the existing relationship between counterfeiting activities and organized crime groups and between different criminal groups is given by the Italian Camorra, as described in Roberto Saviano's best-seller

³³⁷ The FBI uncovered evidence linking the funding of the terroristic bombing of the World Trade Center in 1993 to a shop in New York selling fake goods; Ernst & Young reported that Al Qaeda recommended the sale of fake goods as a means of fundraising for cells; the U.S. Government has established that Hezbollah and the Irish Republican Army get funds from counterfeiting activities.

³³⁸ *Id.*, at 38. As an example see P. K. YU, *Three Questions that Will Make You Rethink the U.S.-China Intellectual Property Debate*, 7 J. Marshall Rev. Intell. Prop. L. 412, 416 (2008), according to whom "some district attorneys' offices in the United States have simply refused to prosecute those cases".

³³⁹ Regulation (EU) No 386/2012 of the European Parliament and of the Council of 19 April 2012 entrusted the OHIM with tasks related to the enforcement of intellectual property rights, including the assembling of public and private-sector representatives as a European Observatory on Infringements of Intellectual Property Rights and supporting national authorities and the European Commission to facilitate the exchange of information on IPR infringements. Under Council Decision of 6 April 2009 establishing the European Police Office (Europol) (2009/371/JHA), Europol's competence covers organised crime, terrorism and other forms of serious crime that affect two or more Member States in such a way as to require a common approach by the Member States, due to the scale, significance and consequences of the offences.

³⁴⁰ 2015 Situation Report on Counterfeiting in the European Union, cit., at 20.

³⁴¹ *Id.*, at 5.

Gomorra³⁴². The Camorra, controlling most of Naples and its provinces and involved in several crime areas, is known to collaborate with Chinese organised crime networks in the importation and distribution of counterfeit goods. They import raw materials and finished counterfeit goods into the harbor of Gioia Tauro, which is used almost entirely by Chinese shipping companies. Once collected at the point of entry, they affix labels printed in Italy and they then distribute the goods throughout the region of Campania and elsewhere in Italy.

It is no coincidence that Chinese citizens have settled in Italian areas traditionally known for the textile and fashion industries, such as the provinces of Naples, Lombardy, Marche, and between the areas of Prato and Florence³⁴³. Chinese OCGs operate across Europe and employ legitimate business fronts to facilitate the flow of counterfeit products, such as warehouses controlled by legitimate companies (owned by people of Chinese origin) that are used to store counterfeits mixed with legitimate products. Chinese OCGs are also thought to employ victims of human trafficking to work in textile workshops and have collusive relationships with corrupted shipping agents and money transfer agencies, enabling them to send large amounts of money to China.

Corruption is in fact another crime in which counterfeiters usually engage to encourage factory overruns and turn a blind eye to false documentation. Since 1 April 2008, the “Authorised Economic Operator” status (AEO) has been introduced by EU Member States for traders that meet common criteria (based on security systems, solvency and compliance) in order to allow reliable traders to move goods more quickly through customs controls, but also this programme may result in corrupt practices itself³⁴⁴.

Moreover, the discovery of firearms in some raids unveiled the more violent side of what is often seen as a “victimless crime”, since it showed use of coercion and violence to force retailers to sell the illegal goods or force victims of human trafficking to work in sweatshops³⁴⁵.

The link with criminal groups and other criminal activities, together with the threat for public health and safety and the losses in terms of jobs and tax revenue raised issues of public interest and called for some public action in order to give global responses. In 2002, it was created the Interpol’s Intellectual Property Crime Action Group. The Office of the United States Trade Representatives issues a yearly Special 301 Report that identifies the main concerns with respect to IP policies and the countries that do not provide adequate protection, which are referred to as Priority Watch List. The OHIM declared to support Europol’s efforts in the fight against the infringement of IP rights by “(a) financing Europol initiatives intended to increase information and intelligence gathering and monitoring trends in the field of IP crime and (b) providing easy and secure access to IT tools developed to facilitate the exchange of information between

³⁴² R. SAVIANO, *Gomorra. Viaggio nell'impero economico e nel sogno di dominio della camorra*, Mondadori, Milano, 2006.

³⁴³ See 2015 *Situation Report on Counterfeiting in the European Union*, cit., at 43.

³⁴⁴ *Id.*, at 36.

³⁴⁵ *Id.*, at 24.

right holders and enforcement authorities”³⁴⁶. In 2016, they created the EU-US Action Strategy for the Enforcement of Intellectual Property Rights, seeking to identify international IP issues and support companies to address them.

Some steps have thus been taken, but they have actually been more proclamations than concrete measures, since the small resources allocated demonstrate little public interest for policing and prosecuting counterfeit activities, the responsibility of which thus rest on brand owners.

1.5 The rise and fall of ACTA

A major public initiative to combat cross-boarder counterfeiting was taken in 2007 with the negotiations of the Anti-Counterfeiting Trade Agreement (ACTA)³⁴⁷, a plurilateral agreement aimed at establishing global standards for the enforcement of intellectual property rights. Since it developed outside the auspices of international organizations such as WIPO or WTO and it was negotiated for the most part among IP-maximalist countries seeking to impose their IP agenda, ACTA was also defined a “TRIPS-plus” agreement³⁴⁸.

As compared to the TRIPS Agreement in fact, ACTA expanded international law on civil enforcement, digital enforcement, border measures, and criminal enforcement of IP rights by increasing international cooperation and shifting the responsibility of policing IP rights from right holders to governments³⁴⁹. In particular, ACTA proponents main goals were (1) to allow criminal laws enforcement authorities to act ex officio; (2) to extend criminal

³⁴⁶ *Id.*, at 3.

³⁴⁷ A signing ceremony was held on October 1, 2011 in Tokyo, Japan, at which Australia, Canada, Japan, Korea, Morocco, New Zealand, Singapore, and the United States signed the Agreement. *Joint Press Statement of the Anti-Counterfeiting Trade Agreement Negotiating Parties*, Office of The United States Trade Representative (Oct. 2011), available at <<http://www.ustr.gov/about-us/press-office/press-releases/2011/october/joint-press-statement-anti-counterfeiting-trade-ag>>. While not signing it, the European Union, Mexico, and Switzerland “confirmed their continuing strong support for and preparations to sign the Agreement as soon as practicable”. *Id.* Twenty-two EU member nations have since signed the Agreement, though it has not been ratified by the European Parliament. The Agreement will enter into force once six member nations enter instruments of “ratification, acceptance or approval”.

Anti-Counterfeiting Trade Agreement art. 40(1), opened for signature Oct. 1, 2011 [hereinafter ACTA or Agreement],

available at <http://www.mofa.go.jp/policy/economy/i_property/pdfs/acta1105_en.pdf>.

The other parties to the Agreement are Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, and Sweden. *Id.* art. 39 n.17.

³⁴⁸ S. K. SELL, *The Global IP Upward Ratchet, Anti-Counterfeiting and Piracy Enforcement Efforts* (June 9, 2008) (unpublished manuscript), available at <<http://www.ip-watch.org/files/SusanSellfinalversion.pdf>>.

³⁴⁹ See M. E. KAMINSKI, *An Overview and the Evolution of the Anti-Counterfeiting Trade Agreement (ACTA)*, 21 *Alb. L.J. Sci. & Tech.* 390 (2011).

liability to companies that benefited from using pirated products, such as software; (3) to introduce new obligations on the criminal seizure and destruction of infringing goods; (4) to criminalize circumvention of digital security technologies; (5) to “address piracy on digital networks”; and (6) to introduce damages, provisional measures, recovery of costs and attorney’s fees, and destruction of infringing goods in civil lawsuits³⁵⁰.

A peculiarity of ACTA is that it was supposed to be developed in secret because considered a national security issue, but when leaks of the content were posted on the web and made available to the public a large group of academics, practitioners and public interest organizations wrote that “the terms of the publicly released draft of ACTA threaten numerous public interests”³⁵¹. They claimed that the large amount of shared information among the different authorities and the obligation of internet service providers to disclose user identity to the right holder raised concerns about privacy and freedom of speech, especially when shared between parties with differing legal standards on civil liberties.

Some also argued that despite its title and provisions for counterfeit goods, ACTA was indeed primarily focused on copyright, seeking to respond to growing concerns of rights holders with respect to digital copyright infringement, as demonstrated by the several provisions strongly influenced by the U.S. Digital Millennium Copyright Act (DMCA), such as notice-and-takedown provisions, criminalization measures against copyright infringement, and anticircumvention provisions³⁵². “What started as a relatively simple proposal to coordinate customs enforcement has transformed into a sweeping and complex new international intellectual property and internet regulation with grave consequences for the global economy and governments’ ability to promote and protect the public interest”³⁵³.

Moreover, the Agreement did not strike an effective balance between the rights and interests of the different parties involved, since it went too far in protecting the interests of right holders without considering correlative exceptions, limitations, and procedural safeguards for users and internet service providers³⁵⁴.

Although the final draft of the Agreement used less draconian language, the harsh criticism remained and eventually caused its adoption to fail, especially

³⁵⁰ Talking Points of the United States for TRIPS Council Meeting of October 26, 2010, <<http://keionline.org/node/1008>>.

³⁵¹ *International Experts Find that Pending Anti-Counterfeiting Trade Agreement Threatens Public Interests*, American University Washington College of Law, June 23 2010, available at <<http://haiweb.org/international-experts-find-that-pending-anti-counterfeiting-trade-agreement-threatens-public-interests/>>.

³⁵² A. SHEPARD, *ACTA on Life Support: Why the Anti-Counterfeiting Trade Agreement is Failing and How Future Intellectual Property Treaties Might Avoid a Similar Fate*, 12 *Wash. U. Global Stud. L. Rev.* 673 (2013), available at <http://openscholarship.wustl.edu/law_globalstudies/vol12/iss3/21>.

³⁵³ *International Experts Find that Pending Anti-Counterfeiting Trade Agreement Threatens Public Interests*, cit.

³⁵⁴ SHEPARD, cit., at 683-684.

after the EU Parliament declined to ratify it. The negotiating history of ACTA, strongly criticized for its lack of transparency, can be considered emblematic of new trends in intellectual property norm creation, which sees a shift toward smaller, more public-minded influencers thanks to the internet, which allows an unprecedented transparency and activism (or “hacktivism”) in the creation of international intellectual property norms³⁵⁵.

1.6 Parallel imports

In addition to knockoffs and counterfeited goods, a third category of potentially infringing fashion goods is that of parallel imports or gray market goods. Gray market goods are authentic products legally purchased in countries where they cost less and then imported in countries where consumers are willing to pay more, where they are sold through unauthorized channels of distribution at a higher price, that is yet lower than that charged by authorized retailers³⁵⁶.

The phenomenon of parallel importing of trademarked goods raises a conflict between intellectual property rights protection and trade liberalization³⁵⁷. On one hand, under the principle of territoriality trademark protection extends only to the specific country or jurisdiction where the trademark is registered. On the other hand, with the globalization of trade branded goods circulate around the world and are often sold at different prices in different countries because of rights holders’ price discrimination strategies.

The extent to which trademark owners can control the distribution of their branded goods depends on the model of exhaustion embraced in their jurisdiction. “According to the concept of exhaustion, once IP right holders sell in a particular jurisdiction a product to which their IP rights are attached, they must allow the resale of that product in that jurisdiction. The IP rights covering the product have been “exhausted” by the first sale”³⁵⁸. The doctrine of exhaustion of rights is hence otherwise called first-sale doctrine.

There are two types of exhaustion regimes: national (or regional) and international³⁵⁹. Under the international exhaustion principle, once branded goods have been put on the market by a trademark owner or with its consent somewhere in the world, the trademark owner has exhausted its trademark rights in relation to the sale of those goods anywhere in the world. This principle has

³⁵⁵ See C. YODER, *A Post-SOPA (Stop Online Piracy) Shift in International Intellectual Property Norm Creation*, *The Journal of World Intellectual Property* (2012) Vol. 15, no 5-6, pp. 379-388.

³⁵⁶ JIMENEZ, KOLSUN, *Fashion Law: A Guide for Designers, Fashion Executives and Attorneys*, cit., at 160.

³⁵⁷ H. FANG, L. JIAYU, *A Global Perspective: Do Parallel Imports Constitute Trademark Infringement?*, September 19, 2016 available at <<http://www.kwm.com/en/cn/knowledge/insights/does-parallel-imports-infringe-the-trademark-rights-20160919>>.

³⁵⁸ *Parallel Imports/Gray Market*, Topic Portal, INTA, available at <<http://www.inta.org/Advocacy/Pages/ParallelImportsGrayMarket.aspx>>.

³⁵⁹ *Id.*

been introduced as a basis to further liberalize global trade, helping consumers to acquire cheaper goods by the legitimization of parallel importing. Under the national exhaustion principle, once branded goods have been sold in the domestic market by the right holder or any other person with the consent of the right holder, the brand owner's trademark rights are said to be exhausted for the specific country or region of sale. The exhaustion does not instead extend to other countries or regions thereby allowing the trademark owner to rely on its trademark rights to prevent the unauthorized sale of these goods in other markets.

The debate between which exhaustion regime is preferable has been highly controversial and based on the respective policies adopted, parallel imports of trademarked goods are currently regulated differently in the EU and the U.S. Under EU law, to facilitate the creation of the internal market, parallel imports are generally permissible within the Member States, whereas parallel imports from outside the EU are strictly restricted. Even within the EU, however, gray market goods are illegal if a parallel importer damages the quality of goods, the trademark or its owner's reputation (for instance as a result of repackaging or relabeling), or he omits or distorts the information contained in the trademark. The EU thus adopts an approach of exhaustion of regional rights with respect to parallel imports.

On the contrary, under U.S. law parallel imports are in principle prohibited by virtue of Section 526 of the Tariff Act³⁶⁰. However, in a Customs Service regulation³⁶¹ and the U.S. Supreme Court's decision in *K Mart Corp. v. Cartier*³⁶², *Inc.* the "same owner exception" and "common control exception" were later established to exclude this extraordinary protection where a U.S. company is somehow related to a foreign company. In *K Mart*, the court in fact established that where imported goods bearing an identical trademark are produced abroad by a parent or subsidiary of the U.S. trademark owner, or a party subject to common ownership or control of the U.S. trademark owner § 526 does not bar importation. Therefore, protection afforded by the Tariff Act against parallel imports is exclusively for domestic U.S. trademark owners that have no corporate affiliation with the foreign manufacturer.

In addition, in *Lever Bros. Co. v. United States* the court held that even in the case of parallel imports by a related company allowed by the "same owner" and "common control" exceptions, these imports may be seized as restricted gray market goods if they are "materially different" from those authorized for domestic sale in order to avoid confusion among consumers caused by any difference in quality³⁶³. The Lever rule was upheld in a recent case, where the court found that CVS Pharmacy had infringed Davidoff's trademark because it removed from the

³⁶⁰ 1930 Tariff Act, 46 Stat. 741, as amended, 19 U.S.C. § 1526.

³⁶¹ 19 CFR § 133.21(c) (1987).

³⁶² *K Mart Corp. v. Cartier*, 486 U.S. 281 (1988).

³⁶³ *Lever Bros. Co. v. United States*, 981 F.2d 1330 (D.C. Cir. 1993). The D.C. Circuit reasoned that "the natural, virtually inevitable reading of § 42 of the Lanham Act is that it bars foreign goods bearing a trademark identical to a valid U.S. trademark but physically different, regardless of the trademarks' genuine character abroad or affiliation between the producing firms."

bottles of perfume the production codes that Davidoff used to identify and recall potential counterfeit products and products cannot be considered authentic if they do not conform to the trademark owner's quality control standards or if they materially differ from the products authorized by the trademark owner's for sale³⁶⁴.

The case shows how the threshold of materiality turns out to be quite low, since it is not necessary to prove that the imported goods are of inferior quality, but it is sufficient any slight difference that a consumer would deem relevant to a purchasing decision³⁶⁵. U.S. trademark law thus generally follows an international exhaustion regime with the two exceptions of materially different goods and identical goods and marks manufactured abroad without any relationship with the U.S. trademark owner.

I believe that of the U.S. to be the most appropriate and realistic approach toward parallel importing, since through the "material differences" standard the U.S. managed to balance exhaustion of rights and protection of trademark holders without inhibiting fair trade. I thus wish for the harmonization of the subject through the embrace of the principle of international exhaustion by the different legal systems (or better at the international level, with a multilateral agreement), since at this point a regime of national exhaustion sounds anachronistic.

2. THE DISPARITY OF PROTECTION BETWEEN THE EU AND THE U.S

In this part, I will move from the analysis of the case *Gucci v. Guess* to show how the current lack of harmonization can cause the same case to turn out in opposite decisions in the different jurisdictions, undermining fashion houses' ability to adopt global brand protection strategies. I will then illustrate the impacts that this regime of fragmentation may have on global fashion companies, trying to outline which business and legal strategies they can adopt not to be harmed by those discrepancies between the national markets. To conclude, I will thus emphasize the need to overcome this regime of fragmentation by creating a more coherent and integrated regime of international intellectual property law.

³⁶⁴ *Zino Davidoff SA v. CVS Corp.*, 571 F.3d 238 (2nd Cir. 2007).

³⁶⁵ See, e.g. *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633 at 641 (1st Cir.1992) ("Thus, when dealing with the importation of gray goods, a reviewing court must necessarily be concerned with subtle differences, for it is by subtle differences that consumers are most easily confused. For that reason, the threshold of materiality must be kept low enough to take account of potentially confusing differences—differences that are not blatant enough to make it obvious to the average consumer that the origin of the product differs from his or her expectations.")

2.1 Case Study: Gucci v. Guess

The Gucci v. Guess saga started in May 2009, when Gucci sued Guess before the courts of Milan and New York and then expanded the conflict also to France, China, Australia and the EU, thus building a very interesting case for study under a comparative perspective of intellectual property law. Therefore, in order to analyze similarities and differences between the different courts I will now examine each decision in turn.

a) United States

On May 21, 2012, Judge Scheindlin of the Southern District of New York District Court pronounced the first decision on which had become one of the most debated cases in the fashion system³⁶⁶. The case in fact involved two global fashion companies internationally recognized as two of the most famous brands.

Gucci is an Italian fashion company established in Florence in 1921 and one of the largest luxury goods, fashion, and accessory brands in the world. As such, since the Gucci brand signifies membership in an “exclusive club”, its consumers are both wealthy “lifestyle” consumers who regularly wear Gucci’s products, and “aspirational” consumers, who may be younger and less wealthy, but who “aspire to the exclusivity that the Gucci brand represents”³⁶⁷. Between 2004 and 2009, Gucci sold approximately \$1.3 billion worth of products and spent millions of dollars on advertising each year.

Guess is an American fashion company founded in Los Angeles in 1981 that over the past thirty years has developed a distinctive and unique brand image. Guess’ target customer is “a brand-conscious young woman between the ages of fifteen and thirty who identifies with the sexy, trendy, flashy image of the Guess brand”³⁶⁸. Guess is thus considered a mid-market brand, somewhere between the haute couture like Gucci and retail discounters like Target. Based on its design process as illustrated in the case, Guess is considered a trend follower, and not a trend leader³⁶⁹. Between 2008 and 2010 alone, Guess spent more than ninety million dollars on advertising and promoting the Guess brand.

The case arised out of Guess’ use of several designs allegedly infringing on and diluting five of Gucci’s iconic marks, for which Gucci sought a permanent injunction and \$120 million in damages. In particular, Gucci claimed that in an attempt to “Gucci-fy” its product line, Guess and its Licensees “knowingly and slavishly replicat[ed] Gucci’s world famous design elements and designations [in order to] take advantage of the markets and demand Gucci has created for such designs without having to incur the developmental, promotional and advertising expenses that Gucci has incurred”³⁷⁰. At issue were the following Gucci’s marks:

³⁶⁶ *Gucci America, Inc. v. Guess?, Inc.*, 858 F.Supp. 2d 250 (S.D.N.Y. 2012).

³⁶⁷ *Id.*, at 8.

³⁶⁸ *Id.*, at 5.

³⁶⁹ *Id.*, at 16.

³⁷⁰ *Id.*, at 20.

- 1) the Green-Red-Green Stripe mark (“GRG Stripe”), which consists of outside green stripes flanking a center stripe rendered in red;
- 2) the Repeating GG Pattern, which is a pair of inward facing, inverted G’s set at the corners of a repeating, diamond-shaped pattern connected by two dots forming straight diagonal lines;
- 3) the Diamond Motif Trade Dress, which is the Repeating GG Pattern with a pair of inverted Gs in each corner executed on canvas in a brown/beige colorway, with pinpoint “shading” within the Gs;
- 4) the Stylized G Design mark (“Stylized G”); and
- 5) the Script Gucci Design mark (“Script Gucci”).

The court found that Gucci’s infringement claims were premised solely on post-sale confusion, which occurs when “a potential purchaser, knowing that the public is likely to be confused or deceived by the allegedly infringing product, will choose to purchase that product instead of a genuine one in order to gain the same prestige at a lower price”³⁷¹. “As with point-of-sale confusion, a post-sale confusion plaintiff must still establish a likelihood of confusion among an appreciable number of post-sale observers, taking into account all the vagaries involved with post-sale observation”³⁷². “Indeed, the fact that post-sale observers are removed from purchasing decisions makes post-sale trademark cases inherently difficult to prove, speculative, and subject to increased scrutiny”³⁷³.

The judge thus proceeded with a mark-by-mark analysis applying the eight factor trademark infringement test established by the Second Circuit in *Polaroid Corp. v. Polarad Electronics Corp* to find a likelihood of confusion³⁷⁴. She started with the Repeating GG Pattern and the Diamond Motif Trade Dress and found that, although the use of all-over logo patterns consisting of the brand’s initials is common in the fashion industry, they had become a “key identifier of Gucci that transmits the brand’s characteristic qualities of heritage, quality, and exclusivity”³⁷⁵.

When comparing Gucci’s marks with Guess’ “Quattro G” logo, the judge found the two marks visually dissimilar because of the way the diamond/square

³⁷¹ *Gucci Am., Inc. v. Guess?, Inc.*, No. 09 Civ. 4373, 2012 WL 456519, at *2 (S.D.N.Y. Feb. 14, 2012) (“*Gucci II*”) (citing *Hermès Int’l v. Lederer de Paris Fifth Ave., Inc.*, 219 F.3d 104, 108 (2d Cir. 2000)).

³⁷² See *Gucci Am. Inc. v. Guess?, Inc.*, 2011 WL 5825206, at * 13 (S.D.N.Y. Nov. 16, 2011) (“*Gucci I*”).

³⁷³ See *Lang v. Retirement Living Publ’g Co.*, 949 F.2d 576, 583 (2d Cir. 1991).

³⁷⁴ *Polaroid Corp. v. Polarad Electronics Corp.*, 287 F.2d 492, 495 (2d Cir. 1961). The eight factors are (1) the strength of the Plaintiff’s mark in its commercial context; (2) the similarity between the Plaintiff’s and Defendant’s marks; (3) the competitive proximity of the products, looking at the nature of the products and the structure of the relevant markets; (4) the bridging the gap factor, looking whether the two companies are likely to directly compete in the same market; (5) actual confusion; (6) the Defendant’s intent or bad faith in adopting and using the mark; (7) whether there is a danger the lower quality of the Defendant’s product will jeopardize the Plaintiff’s reputation; and (8) the sophistication of consumers.

³⁷⁵ *Gucci America, Inc. v. Guess?, Inc.*, 858 F.Supp. 2d 250, at 12 (S.D.N.Y. 2012).

pattern was anchored at the corners of the shape (double interlocking Gs versus single “G”s) and because Gucci’s design featured only double linked “G”s at the corners of the square/diamond, while Guess’ featured either a single “G” or four interlinking “G”s at the center of the square/diamond, but visually similar because both patters involved the letter “G” and a diamond pattern with dots or dashes connecting the corners and both used the pattern in brown/beige colorway on a shaded canvas background.

The court additionally held that the evidence in the record showed that Guess intentionally copied the upscale look of Gucci’s marks and thus acted in bad faith. In fact, in its application for trademark registration Guess described the Quattro G Pattern as a square and did not mention Gs in the corner or a diamond-shaped pattern in order to prevent Gucci from taking notice of the application when it was published for opposition. Guess also sent clippings of Gucci fabrics to its manufacturers and licensees to replicate Gucci color shade and other features, like coatings and embossing techniques. Moreover, on several occasions, individuals associated with Guess and its licensees noted that the Quattro G Pattern looked similar to Gucci’s designs. Under the Polaroid test, evidence of intentional copying give rise to a presumption of actual confusion, which in this instance weighted against Guess.

Guess argued that its target market is different from that of Gucci – mid-market versus high-end –, but the courth noted that “in the post-sale context, the target selling market is of decreased importance, as the confusion that exists in the general viewing public is what matters”³⁷⁶ In addition, although, as a general proposition, it is true that Gucci and Guess do not target the same markets, Gucci’s targeting of the “aspirational” customer” make this factor less clear.

<u>Gucci’s Repeating GG Pattern/Diamond Motif Trade Dress</u>	<u>Guess’s Quattro G Pattern</u>
	

With respect to the Green-Red-Green Stripe mark, the court observed that “stripe patterns are “basics” that every brand must be able to use freely in order to compete – excepting, of course, those instances where a particular configuration

³⁷⁶ *Id.*, at 82.

has come to be identified with a particular brand. The GRG Stripe is one such configuration, and should be given strong protection. However, that protection must be limited to a narrow range”³⁷⁷.

Here the judge avoided a full Polaroid analysis, finding that ample evidence showed that Guess and its licensees MFF copied the GRG Stripe from Gucci’s mark and that the conduct was so egregious to be enough to established likelihood of confusion. In fact, internal Guess communications showed that in several occasions defendant’s employees referred to the Gucci GRG Stripe color, used individual Gucci products to develop Guess-branded items and even included a picture of a Gucci shoe on a “spec sheet” that they sent to the factory³⁷⁸. However, since Guess Senior IP Counsel ordered to stop using the GRG Stripe design and to withdraw the products bearing it from Guess’ websites and stores when they came to her attention, the judge found that only MFF acted in bad faith by continuing selling shoes after it was directed to stop doing so.



With respect to the Stylized G and the Script Gucci design marks, the court found them to be “basic”, weak marks entitled of a narrow and specific protection in order to preserve the ability of other brands to compete in the marketplace and thereby benefit the customer. In particular, it was observed that the Stylized G accounted for the fewest sales dollars, and had been the subject of the least amount of advertising, so that it could not be considered an “iconic” design of the brand like the previous GRG Stripe and the Repeating GG Pattern³⁷⁹. In addition, the court found that only three Guess-branded products bearing a Square G were

³⁷⁷ *Id.*, at 85.

³⁷⁸ *Id.*, at 20-21. In a November 20, 2007 e-mail discussing the Melrose 2 men’s shoe, Jury Artola – assistant to the head designer of men’s footwear, Paul Vando – instructed MFF’s manufacturer that the striping detail should be “Green/Red/Green like the GUCCI. . . .” On May 2, 2008, Vando instructed his factory to “please reference the GUCCI sneaker” for the stripe color of one shoe, and that the “webbing whould [sic] be Green/Red/Green as on [the Gucci] sample.” The very next day, when discussing the Deacon men’s shoe, Vando instructed his sample manufacturer to “follow the Gucci colorway” for the GRG Stripe, and even offered to follow up by sending a Gucci shoe as an example.

³⁷⁹ *Id.*, at 86.

substantially identical in shape, such that they conveyed the same overall commercial impression as the Gucci's Stylized G, whereas all the others displayed either a different shape or rhinestones and other adornments not present on the Gucci's Stylized G³⁸⁰. The judge thus concluded that "Guess did not act in bad faith in the development or sale of products bearing any Square G design and that those Square G's that are substantially identical in overall appearance to the Stylized G were not intentionally copied from Gucci, but merely happened to use the same minimally-stylized shape as found in the Stylized G"³⁸¹.

Similar considerations were made for the Script Gucci, on the grounds that the use of script fonts is extremely common in the fashion industry and the only source-identifying function of the mark stemmed from the fact that it spelled out the brand "Gucci." To confirm the "thinness" of the brand, Gucci admitted that without the "iconic underlining," the Script Guess would not infringe its trademark Script Gucci³⁸². Upon careful consideration of the two marks, the judge found that they were decidedly dissimilar, and that the allegedly infringing Script Guess created the same overall commercial impression as the non-infringing script-font "Guess" logos that Guess had been using for the past three decades. Therefore, since Gucci did not introduce any evidence of actual confusion, the court held that Guess did not copy Script Gucci – intentionally or otherwise – and found no likelihood of confusion whatsoever³⁸³.



Based on this analysis, Gucci was able to obtain a permanent injunction for infringement of its Repeating GG Pattern and Diamond Motif Trade Dress in brown-beige colorways, the GRG Stripe in this color combination, and the Stylized G on certain items, whereas no protection was granted for the Script Gucci mark, which Guess remained free to use. The judge also found for Gucci on the dilution claim with respect to the Repeating GG Pattern, the Diamond Motif Trade Dress and the GRG Stripe, which ruled were intentionally copied by Guess with the intent to create association between the brands. The dilution claim was instead not even reached with respect to the Stylized G and the Script Gucci, since they were found not to be famous.

³⁸⁰ *Id.*, at 34-35.

³⁸¹ *Id.*, at 35.

³⁸² *Id.*, at 36.

³⁸³ *Id.*, at 88.

Judge Scheindlin, however, did not stop to a mark-by-mark analysis and when assessing Gucci's claim of \$ 120 million in damages, it looked also at the overall behavior of the parties. She found that Gucci's treatment of Guess' activities was not consistent with the way it treated other infringers, since it did not send any cease-and-desist letter to Guess and waited fourteen months before filing a lawsuit³⁸⁴. She further reasoned that given Guess' open, pervasive, and continuous promotion, sale, and advertising of its branded product, sometimes even in the same mall or nearby Gucci's stores, Gucci knew or should have known that Guess had been using the marks at issue³⁸⁵.

On the damages side, the judge held that Gucci failed to bring evidence of actual damages in the form of lost sales or harm to brand value and that the analysis for a reasonable royalty was highly speculative. However, "if the plaintiff cannot demonstrate actual consumer confusion, it may nonetheless obtain monetary relief by proving that the alleged infringer acted with an intent to deceive, because such an intent gives rise to a rebuttable presumption of actual confusion"³⁸⁶. She thus established that Gucci was entitled to an accounting of profits but limited only to those profits gained in sales of products with the Quattro G pattern in brown/beige colorways and the GRG stripe, which were intentionally copied. Thus, out of a \$120 million claim, the judge granted Gucci only \$4,6 million in damages³⁸⁷. Gucci's behavior toward Guess and the general merits of its claims thus gave Gucci a very narrow and very shallow victory over Guess.

Perhaps the judge's view of the case was best summed up in her conclusion: "over the past three years, the parties have put in countless hours and spent untold sums of money, all in the service of fashion – what Oscar Wilde aptly called "a form of ugliness so intolerable that we have to alter it every six months." With the instant disputes now resolved ... it is my hope that this ugliness will be limited to the runway and shopping floor, rather than spilling into the courts"³⁸⁸.

b) Italy

Although filed together, the first Italian decision arrived only one year later, on May 2, 2013 and with big surprise it was a striking defeat for the Italian fashion house Gucci³⁸⁹. The court of Milan in fact followed a different approach from the

³⁸⁴ *Id.*, at 39. The court noted that "over the years, Gucci has sent out hundreds of cease and desists letters to entities ranging from national companies such as Bebe, Juicy Couture, and Williams-Sonoma, all the way to small-time infringers, such as a counterfeiter working out of her Los Angeles apartment and a rabbi in New York, who they suspected might sell counterfeit Gucci products to benefit his synagogue".

³⁸⁵ *Id.*, at 41.

³⁸⁶ *Id.*, at 71.

³⁸⁷ *Id.*, at 102.

³⁸⁸ *Id.*, at 107.

³⁸⁹ Trib. Milan, sent. 2 May 2013, n. 6095, available in the database *online Darts IP*.

U.S. court and not only dismissed all Gucci's claims, but also ordered cancellation of some of its trademarks because found to be invalid.

When building its case, Gucci here focused more on Guess' overall behavior and general business practices, seeking to affirm its essence of copyist. Gucci charged Guess with having carried out trademark infringing and unfair competition practices since the 2000s by offering products that replicated distinctive marks, models and designs of haute couture at lower priced than the original in order to gain a more sophisticated image.

According to Gucci, Guess thus either started to adapt its own historical distinctive marks to those of Gucci or created ex novo trademarks that could be confused with those owned by the Plaintiff, such as Guess' "G's" logo, and also imitated the shape of Gucci's most famous and sold products. "Gucci wanted to demonstrate that Guess had carried out a well-structured and accurate strategy to systematically copy its distinctive marks and products in order to benefit from Gucci's renown and enter the market as a low priced, valid alternative to the Florentine fashion house; to this end, Plaintiff produced the US Opinion which, it asserted, demonstrated how Guess had intentionally copied Gucci's distinctive marks and products, such as the "green-red-green" stripe, all-over logo pattern and beige/brown color scheme in addition to the "G" pattern, in order to become a sort of "low-cost Gucci" within consumers' eyes"³⁹⁰.

Therefore, in addition to the infringement claim, Gucci asserted that Guess' repetitive and ongoing practices aimed at imitating Gucci's distinctive marks and products, constituted also unfair competition, not only under Art. 2598, no. 1 of the Italian Civil Code— generating likely confusion among the products— but also under nos. 2 and 3, since they allowed Guess to misappropriate Gucci's image and reputation. Moreover, it claimed that the systematic infringement against any of Gucci's new marks, products, or commercial and advertising initiatives also fell under the category of "parasitic competition," violating the principles of fair trade³⁹¹.

Like the U.S. court, the court of Milan conducted first a mark-by-mark analysis in order to decide on their infringement and then looked at the overall behavior of the parties. Despite Gucci's referencing to the U.S. decision, which found for Gucci on four marks out of five marks at issue, the Italian court dismissed all Gucci's infringement claims, finding that its marks were either dissimilar from those of Guess and thus not likely to suffer consumers' confusion, or actually not entitled of legal protection.

Interestingly, when assessing the similarity between Gucci's and Guess' marks, the court pointed out some principle at the core of the fashion industry, as established by Italian case law. In particular, it noted that "in relation to luxury, expensive, high quality and excellently crafted apparel, it must be said that those who purchase such goods pay great attention [to detail] and accurately evaluate all features of the item, focusing on any small differences and looking for its "signature," that is to say, its trademark, which actually is the only element in the industry suited to play a discriminating role among various products" (Court of Milan, September 13 1986); "Those who misappropriate the shape or form of a

³⁹⁰ *Id.*, at 12.

³⁹¹ *Id.*, at 9-10.

competitor's products that can be imitated without restrictions are required to apply various distinctive elements [on the imitation] in order to prevent likelihood of confusion. This requirement is met when the imitator's trademark is applied on the products wherein such goods belong to a market segment such as "designer" fashion where consumer choice cannot occur without a precise recognition of a certain product and identified by a certain trademark" (Court of Bologna, April 1, 1993; similarly, Appellate Court of Milan September 8, 2010). In addition, "likelihood of confusion has to be determined not only in theory (on the basis of the registered marks) but also in practice and that, for this reason, it is necessary to examine the manner and context in which they are used, thus taking into account anything that can influence public opinion in a concrete way (by virtue of primary function of the trademark, or, in other words, its capacity to distinguish the origins of goods and services from their origin). Therefore, no likelihood of confusion exists when the products at issue show the trademark in a clearly visible way and the trademark is sufficiently recognized in the national and international market (Court of Bologna, September 8, 2009, order confirmed by Court of Bologna, January 16, 2009)³⁹².

Based on these assumptions, the court of Milan found not only that the style-conscious consumers of the two brands were more likely to notice the differences between their marks, but also that the renown of both brands and the fact that Guess displayed "Guess" trade name on its products, on their packaging and in the location where they were sold further excluded any likelihood of confusion³⁹³. In addition to that, the court also found that three of Gucci's marks were not entitled of protection: the Standalone "G" with Dots and Consecutively Repeating "G" with Dots³⁹⁴, and the Flora Pattern³⁹⁵.

³⁹² *Id.*, at 37-38.

³⁹³ *Id.*, at 36-37.

³⁹⁴ *Id.*, at 43. The court declared both marks null as they consisted of a simple "G" that was neither characterized by a particular graphic design nor by any kind of interlocking or decorative elements. Also, it found that added dots were common elements which by themselves did not qualify as a sufficiently distinguishing characteristic and that the repetition of an element which is in and of itself devoid of any distinctive character was not enough to obtain protection, since the diamond pattern was very common within the industry, even combined with the fashion house's initials (See for example Gherardini, Celine, Chantelle, Versace, Valentino, Cesare Paciotti, Longchamp, Galitzine, Nike, Oliviero Martini, Renato Balestra, Pollini, Frankie Morello, Sisley, Dior, Louis Vuitton, Rocco Barocco, Laura Biagiotti, DC, Nazareno Gabrielli, Ralph Lauren, Dooney & Bourke, Moreschi, Kohls, Soprani, Tommy Hilfiger, Dr. Stachel, Oscar De La Renta, Lamb and Eiffel).

³⁹⁵ *Id.*, at 60-62. The Court found that the "Flora" pattern, consisting of a floral pattern fabric, particularly sophisticated and aesthetically pleasant, could not be considered a valid trademark, since its aesthetic feature were predominant, or even exclusive, and however able to influence the consumer's choice, this was not as an indicator of the commercial origin but for its ornamental function. In fact, Gucci had registered this pattern also as a design, whose protection cannot be cumulated to such protection as granted by a trademark.



With respect to the claim of unfair competition, the court noted how the sum of legal acts could still result in the illicit conduct of parasitic competition, when considering the overall allegedly imitative conduct. In particular, “the so-called parasitic competition must be considered an act of unfair competition under no. 3 of Art. 2598, when the imitator’s business activity becomes an ongoing and systematic path, even if not all-embracing, essential and steady, on others’ footsteps, because imitating all, or nearly all the steps a competitor undertakes, adopting somehow immediately all its new initiatives, though not generating confusion of activities and products, is against the rules that govern a fair development of competition”³⁹⁶.

“It may actually occur that, though not imitating every single products or stylistic choices, a “fil rouge” may be traced, connecting single acts and revealing that, altogether, someone’s choices follow step by step someone else’ entrepreneurial initiatives and conducts with the intent to take objective and unfair competitive advantage, achieved by making use of other’s efforts and results”³⁹⁷. Moreover, “systematic misappropriation of others’ work and creativity would constitute a parasitic conduct even more in such a field – as the fashion industry – where creativity, innovation, and originality are essential factors, not simple requirements for protection purposes, but rather intrinsic to its inner essence”³⁹⁸.

In the case at issue, unlike the American court, the court of Milan did not find that Guess acted in bad faith or intentionally copied Gucci’s marks, but that Guess’ stylistic choices were rather the result of Guess following the fashion trends of the time still keeping its individual flashy, sexy style. Therefore, Guess could not be said to profit from Gucci’s originality and creativity and Gucci’s claim of unfair competition was dismissed. The first stage of proceedings in Italy thus resulted in a total defeat for Gucci, that having lost on all grounds filed for appeal.

In July 2014, the Court of Appeal of Milan partially overturned the decision of first instance in favor of Gucci³⁹⁹. In fact, while upholding the dismissal of all claims of infringement and the declaration of nullity of three Gucci’s marks

³⁹⁶ *Id.*, at 80 citing *Motta v. Alemagna*, Cass. sent. 17 April 1962, n. 752, in *Foro it.*, 1962, V, 917.

³⁹⁷ *Id.*, at 80.

³⁹⁸ *Id.*, at 80-81.

³⁹⁹ App. Milan, sent. 15 September 2014, n. 3308.

invalidated in first instance, the court of appeal held that Guess was liable for unfair competition since its behavior was “contrary to the constitutional principles of freedom of private economic initiative and freedom of competition”⁴⁰⁰.

It found that the techniques and precautions employed by Guess, taken individually, were such as to avoid confusion between the signs of the two brands, and thus did not constitute trademark infringement, but that in an overview, there was clearly a “constant tension to imitate Gucci’s designs”⁴⁰¹.

After comparing the same product categories of the two fashion houses on public display in a limited period of time (bags, footwear, accessories, jewels), the court noted that in all cases Guess’ products were launched immediately after the presentation of Gucci’s collections and closely resembled - in the shape, color, material, graphic and decorative choices, or a combination of the elements thereof - Gucci’s stylistic choices. Therefore, since it found that Guess’ conduct, implemented through a plurality of acts, was guided by “a systematic and massive exploitation of the initiative and creativity of others”, this was one of the rare cases where an Italian court held liability for parasitic behavior⁴⁰².

Interestingly, when assessing Guess’ bad faith with respect to Gucci’s claim of damages, the court of appeal, unlike the court of first instance, did not engage in a new analysis, but entirely relied on the findings of fact established in the decision of the District Court of New York, which found that Guess had intentionally copied some of Gucci’s marks⁴⁰³. In addition, the court held that the harm to Gucci’s brand value could be easily demonstrated by some customers’ comments posted online, noting how Guess was offering products recalling Gucci’s style, at a lower price⁴⁰⁴. On appeal, Gucci was thus able to obtain some monetary relief like in the United States, but since injunctive relief was still denied, Guess remained free to continue using the alleged marks on the Italian market.

c) France

The Gucci v. Guess saga continued in France, where on February 2015, the Court of Paris ruled in Guess’ favor on all claims, rejecting each of Gucci’s claims of trademark infringement, counterfeiting and unfair competition⁴⁰⁵. Like in the first instance decision of the court of Milan, the French court found that the marks of the two brands were not similar and that Guess did not act in bad faith. It thus denied Gucci’s claim of €55 million in damages, and instead ordered the Italian fashion house to pay Guess €30,000. The court also nullified Gucci’s trademark of three of its “G” logos.

⁴⁰⁰ *Id.*, at 13.

⁴⁰¹ *Id.*, at 14.

⁴⁰² *Id.*

⁴⁰³ *Id.*, at 15.

⁴⁰⁴ *Id.*

⁴⁰⁵ Tribunal de Grande Instance de Paris, 30 Janvier 2015, available in the database *Online IP Darts*.

d) China:

The battle continued in China, again with a different ruling. In 2013 the Nanjing Intermediate People's Court ruled in favor of Gucci⁴⁰⁶. It is worth noting how the Chinese court adopted a different standard of trademark infringement, not looking at actual evidence of consumers' confusion, but whether the marks looked subjectively similar, arguing that Chinese consumers are not as sophisticated as their American or European counterparts when distinguishing between the logos of foreign. Guess' CEO Marciano promised to take the case all the way to the Supreme Court if necessary. "Gucci is a bully," Mr. Marciano said. "When Gucci was unable to compete in the marketplace, they ran to courts in New York and Milan. When Gucci lost there, they ran to Nanjing. The Nanjing decision will be overturned because Chinese consumers are some of the most fashion-savvy buyers in the world. We are confident that they know the difference between Guess products and Gucci products"⁴⁰⁷. Marciano was eventually right, when in 2015 the Jiangsu High People's Court overturned the decision, finding for Guess⁴⁰⁸.

Other Juridictions:

Gucci perpetuated its battle against Guess in several other countries, like Australia, Cuba, Chile and Colombia. Since my discussion is limited to the EU and the U.S. legal systems, I will not go into the detail of the single decisions. This is only to point out the breadth of Gucci's action and its vigorous enforcement of its IP rights, which however resulted in different outcomes in the different jurisdictions.

2.2. Lack of harmonization and its implications

The comparative analysis of the case *Gucci v. Guess* in the different jurisdictions clearly illustrates the lack of harmonization when it comes to fashion. Fashion houses are left with different decisions in the different countries and this may harm their business, since it undermines their chance to adopt unique global strategies. In the case at issue, depending on the outcome in court, on one hand, Guess was ordered to stop selling the infringing products in some countries, while remaining free to market them in others, on the other hand, Gucci saw some of

⁴⁰⁶ *Gucci vs. Guess: four countries, four verdicts*, Bloom & Law, available at < <http://www.bloomandlaw.com/?p=391>>.

⁴⁰⁷ *Guess lodges appeal against Gucci's logo lawsuit*, published on 27 May, 2014 <http://english.cnipr.com/news/corporation/201405/t20140527_180925.html>

⁴⁰⁸ Jiangsu High People's Court, August 31 2016, available in the database *Online IP Darts*.

its marks invalidated only by some decisions, thus being left with non-uniform protection from country to country.

Intellectual property rights are territorial in nature and each country has its own IP laws, registration and enforcement systems, and administrative authorities. Although multistate registration systems have been implemented under the Hague Agreement and the Madrid Protocol, “international IP protection creates a dilemma for brand owners: they must carefully weight the great benefits of protection against the cost of obtaining such protection”⁴⁰⁹. Moreover, the lack of an international standard on the requirements for trademark protection makes it even more complicated.

For instance, the United States is a first-to-use jurisdiction, granting trademark ownership to the first party that uses the mark⁴¹⁰, whereas China is a first-to-file jurisdiction, granting ownership to the first party who files for registration of the mark⁴¹¹. It thus often happens that well-known brands get pirated by Chinese “IP trolls”, who register the foreign brand name locally before the owner in an attempt to exploit the brand on their own or to extort money from the brand owner for resigning their local IP rights⁴¹². This occurred for example to Hermès, when it found out that a Chinese garment manufacturer had registered the brand name “Ai-ma-shi” that Hermes was using in China and it was eventually unable to obtain trademark cancellation on the basis that the manufacturer had registered the mark first⁴¹³.

Therefore, fashion houses need to adapt their business to each country-specific IP system, but also to local advertising standards, social media platforms, consumer protection regulations, and data privacy rules. This may require both market and legal strategies to vary from country to country, in order to make the most of each legal systems and it is also why, as further explained in the interview with attorney Elena Varese, is so important to consult an expert lawyer on national laws.

2.3. Industry practices

A fashion company aiming at establishing as a global brand has two main options to do so in the most efficient way, when expanding in foreign markets: it can either apply for a multinational registration of its trademarks and designs under the Madrid Protocol and the Hague System, or it can enter into licensing

⁴⁰⁹ JIMENEZ, KOLSUN, *Fashion Law: A Guide for Designers, Fashion Executives and Attorneys*, cit., at 347.

⁴¹⁰ See *Sengoku Works Ltd. v. RMC Int'l, Ltd.*, 96 F.3d 1217, 1219 (9th Cir. 1996) (nothing that “To acquire ownership of a trademark is not enough to have invented the mark first or even to have registered it first; the party claiming ownership must have been the first to actually use the mark in the sale of goods or services”).

⁴¹¹ S. M. GREENE, *Protecting Well-Known Marks in China: Challenges for Foreign Mark Holders*, 45 *Am. Bus. L. J.* 371, 375 (2008).

⁴¹² JIMENEZ, KOLSUN, cit., at 347.

⁴¹³ *Id.*, at 351.

or representative agreements with local parties. While the former may be quite expensive, the latter requires the greatest care in drafting the contract to ensure that the local partner does not seek registration for itself, thereby depriving the right holder of the expected protection⁴¹⁴. In addition, fashion houses often register local language versions of their brands in order to avoid trademark trolls and create local brands or sub-brands to better suit the needs and preferences of local consumers⁴¹⁵.

With respect to the enforcement of their rights, most of the industry practices take advantage of the new technologies that have been developed in the last decades. In fact, it is true that technology enabled infringers to make the most of copying by rendering it easier and faster, but it also gave right holders (and their lawyers) new tools to investigate on possible infringements.

In particular, fashion companies have incorporated innovative product security devices in packaging or inside a product itself, such as holograms, RFIDs, or bar codes, enabling them to detect and track fakes and sometimes also the whole distribution chain. When last month I wanted to buy a Zanellato's Postina bag on Ebay, all I had to do to verify its authenticity was asking seller of its security code and verifying it on Zanellato's website⁴¹⁶. This is a very interesting system, since it enables right holders to see where their items go, who purchases them and who infringes them.

With respect to the second-hand luxury market, an American start-up recently developed a portable scanning device designed to instantly authenticate designer bags⁴¹⁷. It is basically a handheld smart microscope that scans details of the material, processing, workmanship, serial number, and wear/tear and then compares the scans against a vast database that includes top luxury brands (by now, primarily Hermès and Louis Vuitton). If the bag is deemed authentic, user immediately gets a Certificate of Authenticity.

A good enforcement strategy, however, starts from a policy of prevention. A first step is monitoring the customs by filing an application to the customs in order to block the infringing products entering the country. Right holders need thus to invest resources in training the customs officers on how to spot fakes and in periodically updating their prevention measures in order to keep up with counterfeiters' increasing sophistication⁴¹⁸.

In addition, sales and business personnel of the fashion companies should also be involved. "Sales personnel are closest to consumers in the marketplace

⁴¹⁴ *Id.*, at 348.

⁴¹⁵ *Id.*

⁴¹⁶ See Zanellato's official website, "Code Verification" area, where it is stated: "From 2014 S/S collection you can verify the authenticity of your bag with a serial number engraved inside the product. To identify the originality of every product (from 2014 SS collection) insert all the serial number engraved on leather ID card inside the bag". <<http://www.zanellato.com/en/code-verification/?lang=en>>

⁴¹⁷ See *Trying to spot a real Chanel from a fake? Deep learning tech can help*, available at <<http://www.cnbc.com/2017/05/04/deep-learning-tech-identifies-counterfeit-goods.html>>.

⁴¹⁸ JIMENEZ, KOLSUN, *Fashion Law: A Guide for Designers, Fashion Executives and Attorneys*, cit., at 142.

and thus often best suited to see or hear about counterfeit products. Other business personnel may be particularly well equipped to identify differences in importation patterns and can help the legal team determine where to direct its efforts⁴¹⁹. This has been recognized also by courts, for example when in *Gucci v. Guess* the District Court of New York heavily relied on Guess' personnel affirming similarities with Gucci's marks to establish Guess' liability for trademark infringement⁴²⁰.

Right holders also realized that to make their prevention activities effective, they needed to act not only on the infringers' side but also on that of consumers through consumer education⁴²¹. In fact, a recent OHIM study found that "a large majority of EU citizens display strong support for IP and yet consider that at a personal level, breaking the rules may be justified to cope with the consequences of limited purchasing power or to protest against an economic model driven by the market economy and premium brands"⁴²². The same can be said for the U.S.

Many fashion houses thus launched major public awareness campaigns. British outerwear brand Barbour purchased Google advertisements for fake Barbour and in its "Counterfeit Education" page, it featured the brand history, the threats of counterfeit products, the list of known infringing websites and an e-mail address to report other infringing products⁴²³. Similar initiatives have been taken by other brands like Chanel and Christian Louboutin⁴²⁴. Moreover, fashion companies frequently feature their anticounterfeiting campaigns in fashion magazines supporting their fight, like Harper's Bazar, that has a yearly issue named "Fakes Are Never in Fashion" to "expose the atrocities of the fake trade and focus on the significance of purchasing authentic luxury goods"⁴²⁵.

⁴¹⁹ *Id.*, at 147.

⁴²⁰ *Gucci America, Inc. v. Guess?, Inc.*, 858 F.Supp. 2d 250, at 32 ("On several occasions, individuals associated with Guess and its licensees noted that the Quattro G Pattern looked similar to Gucci. For example, Kramer of Guess's licensing department stated in a June 2006 e-mail noted that a Guess shoe with the Quattro G Pattern with shading "looks so similar to Gucci but it is nice. . . ." Richard Danderline, the former CFO of MFF, wrote to another MFF executive in June 2008 that "the 'quattro G' pattern is pretty close to the Gucci pattern." He also forwarded the design to outside counsel for review, but MFF asserted attorney-client privilege over the response.)

⁴²¹ JIMENEZ, KOLSUN, *Fashion Law: A Guide for Designers, Fashion Executives and Attorneys*, cit., at 144.

⁴²² *Perception, awareness and Behaviour Study*, Office for Harmonisation in the Internal Market (OHIM), 2013.

⁴²³ *Id.* See Barbour, Counterfeit Education <<http://www.barbour.com/counterfeit-education>>.

⁴²⁴ Chanel has a page dedicated to identifying its authorized retailers, as well as its counterfeit policy. Christian Louboutin's website has a "Stop Fake" page that lists licensed retailers and warns shoppers that "when something is too good to be true, that's usually what it is worth. Websites selling low, low priced Louboutin looking shoes are probably not selling the real thing".

⁴²⁵ JIMENEZ, KOLSUN, cit., at 145.

2.4 The insular position of the U.S.

Based on the differences between EU and U.S. law previously illustrated, I will now focus on the impact that the current lack of IP protection in the United States has on the international fashion community. In fact, “even though the laws of the United States stop at its borders, the economic incentives for domestic and foreign fashion designers whose works are being knocked-off in the United States do not”⁴²⁶. In today global market, where national borders are becoming less of an obstacle for fashion companies aiming at foreign markets, the disparity of protection they receive under EU and U.S. law can no longer be tolerated.

Under the current copyright regime, while American fashion designers receive protection in Europe (under either EU or national laws), European fashion designers do not receive protection in the United States. In fact, the national treatment provision of the Berne Convention for the Protection of Literary and Artistic Works requires countries that provide copyright protection for fashion designs under their domestic law to extend that protection to authors in all signatory countries⁴²⁷. However, national treatment under Berne is not contingent on reciprocal treatment, meaning that protection will be extended also to authors of countries that do not provide fashion design protection, like the United States.

Despite its usual pressing on the international IP community for adopting its own domestic laws as standard, with respect to fashion design protection the U.S. maintains its long-lasting insular position. Since the Fashion Originators’ Guild of America, excluding foreign designers from the quasi-copyright protection it provided to American designers, the U.S. has in fact refused to view fashion piracy as a matter of international concern⁴²⁸. It was only when American fashion gained international recognition on a par with European fashion capitals like Paris and Milan that U.S. designers started lobbying for a more uniform protection, recognizing the implications of their insular position. The Council of Fashion Designers of America stated:

“Fashion design has matured to the point where U.S. original creations are increasingly being copied abroad, and we therefore have an interest in ensuring continued reciprocal protection for these original works. European designers and their trade associations are becoming increasingly dissatisfied

⁴²⁶ MILLER, *Piracy in Our Own Backyard: A Comparative Analysis of the Implications of Fashion Copying in the United States for the International Copyright Community*, cit., at 136.

⁴²⁷ Berne Convention, art. 5(1): “Authors shall enjoy, in respect of works for which they are protected under this Convention, in countries of the Union other than the country of origin, the rights which their respective laws do now or may hereafter grant to their nationals, as well as the rights specially granted by this Convention”.

⁴²⁸ MILLER, cit., at 152-153.

*because, even though Europe protects U.S. designs, the U.S. does not adequately protect European designs*⁴²⁹.

In addition to disallowing uniform protection with EU designs, some have also argued that the United States is in violation of its international obligations under either the Berne Convention or the TRIPS Agreement, which require protection of applied art and industrial design⁴³⁰. I have already showed that under U.S. law, fashion design does not receive adequate protection. Therefore, “even so, U.S. protection for fashion designs remains inadequate, which not only strains its transatlantic relations, but also undermines U.S. credibility in attempting to get other countries throughout the world to protect U.S. intellectual property”⁴³¹. Under this regime of disparity, one may in fact wonder whether a country like Italy or France, which provide fashion design protection, would feel obligated to enforce the rights of American fashion designers, when Italian and French designers do not receive reciprocal treatment in the United States⁴³².

Therefore, the United States can no longer ignore the international implications of its insular position: it is time to join the majority of other jurisdictions and protect fashion design against copying. This would benefit designers and consumers by advancing American fashion industry’s creativity, as well as enabling the U.S. to comply with its international obligations, affirming the U.S. credibility in its worldwide trade relations.

2.5 Looking toward the future

In today global market, harmonization of the law has become of paramount importance. Any insular approach has become anachronistic and competing degrees of protection between the different jurisdiction can be harmful. Fashion piracy is a matter of international concern and should be addressed as such.

As previously illustrated, since TRIPS, some core principles on the protection of industrial design have been emerging, making a modified copyright approach focusing on short-term protection the international standard⁴³³. The TRIPS Agreement was in fact designed to promote innovation and facilitate global trade by enhancing harmonization of international intellectual property law. Even though it continued in the tradition of the Paris and Berne Conventions to adopt a minimum standards approach that leaves signatory countries with substantial

⁴²⁹ E-mail from P. D. Arnold, Executive Director, Council of Fashion Designs of America, to M. Mowrey, Deputy Assistant United States Trade Representative for Europe and the Mediterranean, available at https://ustr.gov/archive/assets/World_Regions/Europe_Middle_East/Transatlantic_Dialogue/Public_Comments/asset_upload_file637_7044.pdf.

⁴³⁰ *Id.*

⁴³¹ *Id.*

⁴³² MILLER, *Piracy in Our Own Backyard: A Comparative Analysis of the Implications of Fashion Copying in the United States for the International Copyright Community*, cit., at 156.

⁴³³ See MONSEAU, *The Challenge of Protecting Industrial Design in a Global Economy*, cit.

latitude regarding implementation in national law, TRIPS constituted a significant improvement in the shift from a fragmented to an integrated international IP system⁴³⁴. It created a set of basic principles, also referred to as “international intellectual property acquis”, that is key to bring coherence to the international IP legal system and to structure future international lawmaking, since it brings predictability and provides a useful guide to international negotiators⁴³⁵.

Those are thus the principles that should inform future action with respect to fashion design protection under U.S. law and other jurisdictions falling behind. Since the main obstacle in adopting intellectual property protection for fashion design has traditionally been the lack of consensus on the specific IP category under which providing such protection, I believe this issue should now be overcome. Moreover, with respect to the implications in the relations between Europe and the United States, the U.S. abandonment of its insular position would deepen their cooperation, further transatlantic economic integration, spur innovation and better mesh their regulatory approaches⁴³⁶.

⁴³⁴ DINWOODIE, DREYFUSS, *A Neofederalist Vision of TRIPS. The Resilience of the International Intellectual Property Regime*, cit., at 41-42.

⁴³⁵ Id., at 176-177 (“The concept of an *acquis* is relatively new to international law. The WTO borrowed it from EU law, where the phrase “*acquis communautaire*” has in recent years been used to describe the body of existing legal principles and commitments to which new members of the European Union must accede”).

⁴³⁶ E-mail from P. D. Arnold, Executive Director, Council of Fashion Designers of America, to M. Mowrey, Deputy Assistant United States Trade Representative for Europe and the Mediterranean, cit.

Conclusions

In the modern consumer culture, fashion design represents a valuable asset, since it results from designers' significant expenditures in its creations and it is able to shape consumers' choices.

Although the practice common in fashion to draw freely upon prior works has traditionally been misinterpreted to deny the originality of fashion design and exclude it from legal protection, its importance for the global competitiveness of the fashion industry is now widely recognized.

In this work, I purported to show the role that fashion has in the modern society and the tools to enhance it at its best. Many theories on fashion design protection are in fact based on misconceptions or outdated view of fashion and base their arguments on wrong assumptions. It was thus important to account for a right understanding of the subject.

To this purpose, I resorted to an extensive sociological analysis and showed that the current model of fashion consumption cannot be oversimplified to a single category of consumers, but is rather the result of a combination of different consumers' sub-groups having different behaviors.

I thus engaged in an economic analysis of the law to outline the effects that the different levels of intellectual property protection granted to fashion design have on designers, on consumers, and on the society as a whole. I applied the basic theory of incentives to the concept of stylistic innovation and concluded that, although it certainly has peculiarities which demand for a carefully tailored scope of protection, fashion design is not so different from other creative industries like those of books, music and movies to justify its lack of protection.

A particular focus was made on the relation between copying and innovation, which is the core of intellectual property law. The argument that copying is beneficial for the fashion industry because it speeds up the fashion cycle overlooks the vast changes that the industry has recently undergone and the variety of motivations in consumers behavior.

While it might encourage aspirational consumers to purchase the original items, the proliferation of copies does not entail innovation. If innovation in fashion is driven by the proliferation of status-goods, one would expect the most status-signaling goods - i.e. "it-bags" - to exhaust their cycle faster and rapidly change. However, some of them, such as the Hermès Kelly Bag and the Chanel 2.55 bag, although widely copied and counterfeited, are iconic classics that have remained essentially unchanged for a half-century and are still best-sellers. Therefore, the weak correlation between the positionality of a design and the frequency of its innovation questions the theory that copying spurs innovation.

Both designers and consumers are actually damaged by copying. On the one hand, it causes designers financial and reputational harm since they are not able to recoup their investments and to establish a link between the novelty of their designs and their name, which is particularly harmful in the competitive fashion market, where a designer's ability to differentiate himself is the most important key to establish a valuable brand. On the other hand, it undermines variety in fashion innovation, since consumers at lower price points have access only to a limited array of styles, that are either unfashionable designs or knockoffs

of a number of pre-selected items identified as fashionable by the high-fashion consumers.

Therefore, fashion does not waive from the orthodox assumption of intellectual property law that piracy threatens creativity and innovation. The relation between IP rights and innovation remains strong.

The lack of protection against copying does not affect only the amount of innovation, but also its direction, since it pushes fashion consumption and production toward the high-end luxury realm rather than a more polyvalent innovation. Should design protection be granted, we would notice a shift of resources from developing brand-name or luxury goods to a more polyvalent language of fashion and a greater variety in fashion innovation.

While outlining the scope of IP protection, the essential characteristics of IP law should be taken in mind. Intellectual property law is designed to balance the interests of different groups and reflect a diverse set of values, while constantly adapting to new technological advances. In particular, under the incentives theory of intellectual property law, the purpose of the monopoly granted by the law is not merely to provide financial gain to creators, but rather to provide enhanced creativity and innovation to the society as a whole.

With respect to fashion design this means striking “the optimal balance between, on the one hand, providing an incentive to create new works, and on the other hand, promoting the two goals of making existing works available to consumers and making material available for use by subsequent innovators”⁴³⁷.

The most appropriate solution seems thus to be a *sui generis* design right, providing a limited copyright-like protection, specifically tailored to the need of commercial design to balance creativity with practicality. Under this *sui generis* protection, designers should be prevented from close copies while they should remain free to build upon existing works through quotation, borrowing and inspiration.

This design right requires a lower degree of originality than traditional copyright protection and thus creates a “sliding scale”, along which the more creative and less commercial products receive the full range of protection afforded by copyright law, while the more utilitarian goods are protected under the narrower design right.

I argue that the grant of a limited intellectual property protection covering original designs but not common trends would make the society as a whole better off because it would result in copier deciding to innovate and designer not harmed by copying, while consumers would enjoy increased innovation at lower price point, with fashion trends selling for their creativity rather than for their ubiquity. The outcome would thus be not only equitable, because copier no longer free rides on designer’s creations, but also efficient, because all parties gain.

Another essential characteristic of intellectual property law is territoriality. As an expression of the cultural, technological and economic aspirations of a nation, intellectual property protection afforded under national IP law does not extend beyond national borders.

Since every country has its own aspirations, this led to a regime of fragmentation and regulatory competition. With the growing of global trade,

⁴³⁷ See *supra* note 198.

however, the fashion industry was increasingly affected by the distortions that territoriality produced and started to seek solutions at an international level.

Especially after the TRIPS Agreement, some areas of agreements on fashion design protection have been emerging through the establishment of a modified copyright protection as the international standard, but there are still big differences. Although I recognize the importance of allowing states to gear their innovation policies to reflect the needs of their local creative communities, I believe this “international intellectual property acquis” would be valuable in reorienting international intellectual property law from a regime of fragmentation to a regime of integration.

“Through advances in communication technology, globalization of trade, and increasingly interconnected geopolitical arrangements, the world is drifting toward a virtual Pangea”⁴³⁸. Fashion piracy is thus a matter of international concern and further harmonization is still needed.

⁴³⁸ DINWOODIE, DREYFUSS, *A Neofederalist Vision of TRIPS. The Resilience of the International Intellectual Property Regime*, cit., at x.

Appendix A

INTERVIEW WITH ELENA VARESE- IP ASSOCIATE AT DLA PIPER, OFFICE OF MILAN

Do you think fashion design should receive intellectual property protection or do you agree with those who claim that the fashion industry thrives in a low-intellectual property regime and that a higher protection would stifle creativity?

The issue of the level of creativity in protecting fashion items has been longly debated. I do not believe that a high level of creativity would trigger higher innovation in general. On the contrary, all the legal systems so far have opted for a low level of creativity to access especially copyright protection.

There is though one exception, which is the Italian regime with respect to protection of copyrightable items that are produced on an industrial basis. This is governed by article 2 of Italian Copyright Law, which sets expressly a higher threshold of protection for this kind of items with respect to copyright. In addition to the normal threshold of originality for other artistic creations, we have the level of “artistic value”. Artistic value is something that is very difficult to prove.

There is a long line of precedents with respect to the requirement of artistic value and in practice artistic value is the equivalent of setting up a higher threshold for protection of copyrightable fashion items. In general, fashion items have never received copyright protection until now because of the requirement of artistic value. What is artistic value? There is no a uniform answer, but the court of Milan has set up a line of precedents with regard to the artistic value and they are actually the recognition by critics and the general public, the exposure of the items in museums or the fact that they have been introduced in books related to the history of costumes and art.

So, I would say that the general answer, at least in the EU jurisdictions, is that a low level of originality has been introduced to enhance the most the highest production of items, but there are exceptions like our artistic value with respect to copyrightable items that are produced on industrial scale.

There is an important precedent from the court of Milan about the well known Moon Boot, where the Moon Boot has been protected by copyright. Design had expired, there was no three-dimensional trademark on the shape of the boot and there was no other protection whatsoever. Copyright protection was claimed and actually the plaintiff technically was able to show a higher degree of originality, i.e. namely the requirement artistic value, showing that the item had been displayed in an exhibition at the Louvre Museum on items that made the history of the Twentieth Century and it was further introduced in design books regarding historical fashion items.

So, I think there will be new developments at least in Italy with respect to access of copyright protection of industrial fashion items. My personal belief is that threshold requirements in accessing copyright protection should not be too low because otherwise it happens that generical shapes or creations with a very low level of creativity are protected by a bunch of different rights, so I am not

persuaded that setting a low level of creativity would ultimately trigger innovation, I am actually persuaded of the contrary.

In your opinion, what is the optimal degree of protection: copyright protection or a tailored sui generis right?

With respect to fashion items I would say that the best tool is actually the Design Right adopted by EU law and harmonized in the different jurisdictions because you do not need to show a high threshold of creativity but at the same time you have to prove that your design is novel and has individual character creating a different overall impression. This is something that is particularly useful for fashion creations: you do not have to prove creativity, which is an issue with respect to copyright protection, especially for industrial items at least in Italy because of the requirement of artistic value.

So, the design right is the best tool, while copyright protection at least in Italy has proved to be quite difficult to obtain. Design right has actually been thought to protect fashion creations, of course you can still protect the shape of a chair or a table but it is tailor-made on fashion items. You also have the possibility to file multiple designs and this was introduced specifically to enable the simultaneous registration of different designs belonging to the same fashion collection.

Design right is much easier to enforce, also because you have a certain date offered by registration, as opposed to copyright, which in the EU jurisdiction is a not-registered right, creating problems in proving when the creation was developed, who made it and so forth...

You said the EU Design Right is the best tool to protect fashion items. What about the US, where there is no specific design protection yet?

I am not a US lawyer, but from what I got initially the view of not protecting fashion items with design was due to the fact that US designers were traditionally basically copying the styles of EU designers, but now that the US have so many successful fashion designers I think things will change very shortly. The fact that they still do not protect designs is because the different players did not agree on the specific tool to be adopted.

There have been actually many attempts to protect designs, the last one brought by the Fashion Association, so I think they will go very close to that in the next years and they will opt for a sui generis right, like other systems have done. They now have design patents, which as far as I know is somehow close to our utility models, but is not completely overlapping, so from the European perspective this is something that is very confusing because it is in the middle of two different rights.

Some commentators argue that despite the significantly different regimes of IP protection, there are no big differences between the EU and the US when it comes to copying because some practices are inherent in the fashion industry and are not sensitive to changes in the legal rules. Do you agree with this proposition?

Well, it is very difficult to say. Also Coco Chanel said that copying is somehow inherent in the fashion industry and is a sort of a flattery for the designers being copied. Of course there is a line, that is very difficult to prove, between what is a misappropriation and what is an inspiration. I think that inspiration is of course good and should be enhanced, even though sometimes, at least in the EU, we are not going in this direction, while copying should of course be discouraged.

It is very difficult in the reality to distinguish between the two, but in general when you see that functional details or very small special elements have been copied by a competitor who copied also the combination of the colors, the shape, the style and this is something that has been repeated over and over, this is not something which is not inherent in any industry and should be discouraged by any court.

With that said, I do not think that in the US there is more copying than in the EU. I think the level of copying between the EU and the US is pretty much the same, but you could say that infringers in the US are very discouraged by the punitive damages that are awarded under US law. I do not know how much punitive damages affect the number and intensity of infringements, but it probably helps...

In a global market like that of fashion what are the main challenges you face due to the lack of harmonization among the different legal systems?

That is a good question. So far, most difficulties have arisen with respect to copyright because in some jurisdictions like France copyright protection for fashion items is something that is more common, so you always have to explain the difference. In Australia for instance they have copyright protection for industrial items and in the UK as well, so sometimes your colleagues from those jurisdictions come to you asking to do a copyright infringement case and you have to explain that under Italian law this is not possible because you have to satisfy the artistic value requirement. I would say this is the main difference.

Another difference is in terms of unfair competition, because we have quite strict rules and it could be that in other jurisdictions its enforcement is easier than in Italy.

Things are changing, with respect to both unfair competition and copyright protection, but so far until there is no harmonization of the two tools I would say that these are the two main areas where there is actually a cultural difference between operators from different jurisdictions.

What are the industry practices and the legal practices to overcome these differences?

In this field, technology is fundamental. To act in prevention you can also monitor the customs by filing an application to the customs within the EU and block the infringing goods nearly transiting within the country, going from country A to country B if they transit in country C you are able to track them in the middle of the process. This is the most used tool, although there are other ways like monitoring trademark filings, doing domain watch notices and as soon as you see infringing behaviors filing opposition, so there are many ways to avoid going into court, which is the last option, even though sometimes you just have to.

How much has changed with new technologies and the advent of the e-commerce?

Everything has changed. I mean, e-commerce, ready-to-wear, see-now-buy-now have changed the fashion industry. Technology has also changed our way to work. We are writing legal briefs and cease and desist letters and we are helped by technology and the internet. We are able to track infringers basically staying sitting in front of our computer and we investigate on the internet thanks to databases and other tools.

So, technology is good for infringers because they are able of course to make the most of copying and have copies on the market very quickly, but on the other hand technology also enables right holders and their lawyers to investigate the identity of infringers, quantity of items and sometimes also the distribution chain. Of course, there are technologies like holograms, RFIDs, or bar codes that involve also consumers in prosecuting infringers because there are systems that inserting your code are able to tell you whether your item is true or not and this is very curious because in this way you actually track back the whole chain of distribution and manufacture of an item and right holders are enabled to see where their items go, who purchases them and who infringes them.

Do you agree that after the TRIPS Agreement some areas of agreement on the principles that should govern design law are emerging? What other steps should be taken to achieve integration of the international intellectual property regime as to fashion design protection?

We talked about that in the first question. Copyright and unfair competition, trade secrets and know-how are the four main areas where international harmonization is required and that international treaties should regulate. These are the four non harmonized areas with respect to what is relevant within the EU. Other than that, I would also add advertising and labelling regulations, but on labelling there is EU legislation, so the harmonization would be in implementing it through national legislation of Member States or outside the EU.

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