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Four strikes and you're out: Adidas covering their bases with trade marks protection

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Takeaway tips

- When considering whether a registered mark is used "as a mark" or merely as a decorative feature, evidence that consumers have become accustomed to seeing trade marks in the same position on products of that kind will support a finding of use as a mark.
- Even if the registered trade mark consists of three stripes, and is well-known among consumers, four stripes can be held to be deceptively similar if they are placed in a similar configuration.
- It is the similarity in the overall configuration of the stripes rather than the number that is crucial in the test of deceptive similarity.
- In essence, the test of deceptive similarity requires a comparison of the marks themselves, but "relevant context" can also be taken into account, in particular what the marks are applied to, and the circumstances in which the marks will be observed and compared.
- Survey evidence that is not "ecologically valid" and evidence tending to show only a general intention to "sail close to the wind" is of little assistance to the court.

Introduction: the evolution from trade mark to fashion statement

In this article, we revisit the decision in *Adidas AG v Pacific Brands Footwear Pty Ltd (No 3)*[1] (*Pacific Brands*) and make some comparative comments about the analogous South African decision in *Adidas AG v Pepkor Retail Ltd*[2] (*Pepkor*). We address these decisions in the context of the spate of infringement actions brought by Adidas around the world in relation to its three stripes trade mark, and some background fashion trends. The most recent trigger for our interest is the litigation between Adidas and Puma in relation to the evoPower soccer boot.[3] Not long before, Adidas also took on Barcelona Football Club in relation to the striped design of its shirts.[4] There have also been reports of Adidas preventing Tesla from pursuing a three stripes design in a trade mark application for goods including caps among others.[5]

In Australia, Adidas owns a number of three stripes registered trade marks, in particular for the short three stripes positioned on the side of sports boots and shoes, and a more elongated pattern running along the outside of the sleeves of shirts and jackets, and also along the sides of shirts, pants, shorts and skirts.[6]

Any competing producer of sports apparel using three stripes, and even two or four stripes, may expect to trigger some reaction from Adidas. Some important legal questions with broad policy implications are highlighted by this circumstance. The first legal issue is what constitutes "use of a mark as a mark" if a registered sign performs both an aesthetic (and say "fashion") function and a badge of origin function. The second issue is that of deceptive similarity in trade marks law, in particular in circumstances where there is an arguably obvious difference between the well-known registered mark and the impugned mark (ie competitors using a different number of stripes).

Adidas is a longstanding sportswear brand that has now snuck its way into the closets of sporting individuals and *fashionistas* alike. Minimalism, streetwear and sports luxe, the hallmark "trends" of the 2010–20 era, adopt sportswear brands as a necessary element. Further consolidating these brands as fashionable entities are collaborations with high-end designers and celebrities. Adidas's highly successful collaborations with Stella McCartney[7] and Kanye West (Yeezy)[8] have breathed new life and a contemporary "cool" culture into a brand that might otherwise be left in the sportswear box. These collaborations, attuned to trends and mixed with fresh designs, have resulted in Adidas being voted as the most relevant brand of 2016 (beating Gucci and Nike) on *Highsnobiety*, a very popular blog and magazine that reports on streetwear trends.[9] Adidas is now considered fashion, and with this comes a renewed desire to take steps to protect their intellectual property. The company is not alone in pursuing this evolution from sports to

fashion brand, and its trade mark's transmogrification from badge of origin to artistic design. Arch rival Puma (itself also on the receiving end of three stripes litigation) was recently reported to be suing Forever 21 in relation to look-alikes from Rihanna's Fenty x Puma line. They are accused of trading "upon the substantial goodwill of Puma, Rihanna, and the Fenty shoes".[10]

The "badge-function": use of a mark as a mark — Adidas Australia

Its win against Pacific Brands must be a comfort to Adidas whose approach, as we explain above, is exactly to combine origin and aesthetic brand functions — thereby establishing an element of monopoly in the appearance of its footwear and garments on the coattails of exclusive rights in its registered mark.

The court in *Pacific Brands* focused on the positioning of the impugned marks and concluded that anything that appears between the laces and the sole of a sports shoe would be perceived by consumers as being there to perform a trade mark function. The court pointed out that in this product segment, many producers placed their marks in exactly that position — teaching consumers to expect to see a badge of origin there. The court thereby trenched between opposing experts. Dr Stavros, an associate professor in marketing who was called by Adidas, offered the opinion that consumers are indeed conditioned to view such markings as brand elements. However, for the respondent, Dr Glaser, a retired emeritus professor of management, argued that these markings may simply serve to enable the consumer to categorise the shoes' "function and did not necessarily have a brand association".[11]

A key difference between the parties related to the matters of context (ie other than the resemblance of the marks themselves) that could be taken into account to answer the question whether the respondent's four stripes were "used as a mark". According to Adidas, advocating for a narrow enquiry, the only material facts were that "logos serving as a badge of origin were traditionally placed on the sides of shoes between the sole and the laces as this space was visible from numerous angles".[12] In other words:

> The fact that the side of sports shoes were used as a place to display trade marks was a permissible matter of context, or perhaps "trade usage" as referred to in s 219 of the [Trade Marks Act 1995 (Cth)].[13]

Context was not the open-ended inquiry into all the surrounding circumstances that the respondent Pacific Brands called for, because "whether there was use as a trade mark could not depend on the present or 'typical' circumstances of sale, which may change".[14] The court agreed with Adidas on this point. This narrow approach was reiterated in the context of deceptive similarity. How a typical consumer may actually come to their purchasing decision in store, while highly relevant in passing off cases, was not the correct inquiry in the registered trade mark context (for instance therefore excluding evidence that, aided by a sales assistant, it would become clear to your average buyer that the four stripes shoes were precisely *not* Adidas, or the fact that Adidas shoes may be displayed on a separate marked stand from other shoe brands).[15]

Evidence relevant to deceptive similarity — Adidas Australia

With the matter of trade mark use having been given short shrift, the court in *Pacific Brands* then moved on to consider the differences between the impugned marks and the registered three stripes mark. The judgment first devotes attention to two issues: the relevance of intention and the probative value of survey evidence. The first was ultimately irrelevant for two reasons: one, the court construed the required intention very narrowly — effectively, evidence was required of a subjective intention to mislead consumers. The respondent had received communications from Adidas concerning its various shoes; in some cases it resisted the allegations of trade mark infringement, in others it agreed to take the shoes off the market. The inference the court drew from these facts was that the respondent engaged upon an honest exercise of determining what was on one side of the line and what was on the other — not that staff acted with a dishonest intent to mislead consumers and get away with it. The court made little of the pattern of behaviour (choosing to incorporate diagonal stripes in many of its boots over time) or the level of resemblance itself (which for three of the sneakers was held to be so great as to constitute trade mark infringement). We comment in more detail below on the court's views about the principle in *Australian Woollen Mills Ltd v FS Walton & Co Ltd*[16] (*Australian Woollen Mills*) in this context.

In terms of the survey evidence, the applicant faced a now familiar refrain in these types of cases: the structure of the online survey did not replicate the purchasing environment for the shoes in a realistic manner (in other words, it was not ecologically valid), and the survey question was a leading one in that it would lead the surveyed persons to look for a branding element in what might otherwise appear to be decorative features. Once again, survey evidence was held to be of no relevance in a case dependent upon proving consumer deception or confusion.[17]

But in any case, the court insisted that it could make the judgment required simply by engaging in the comparative, recollection based exercise the law requires — unaided either by evidence of intention, or by extraneous evidence other than that provided by the expert witnesses.

Deceptive similarity — how to compare marks

In the final analysis, three of the 12 marks were held to be infringing. Generally speaking, these were the least "sporty" and the most ordinary daywear shoes of the 12. The other shoes had more the appearance of "joggers" or boots for ball sports or other athletic activity. The infringing shoes were also women's rather than men's shoes. The stripes on some of the impugned boots had such an integrated structural or design character that there may have been an argument that they did not appear to be present on the boots for a "badge of origin" purpose. However, the court took a global approach to that question and did not consider it shoe-per-shoe, as it did the deceptive similarity issue.

The first difficulty faced by the court was that each impugned mark consisted of four rather than the Adidas three stripes. In a few short passages, the court made and justified some core decisions, at the outset saying that the question of deceptive similarity in trade marks law "depends on a combination of visual impression and judicial estimation of the effect likely to be produced in the course of the ordinary conduct of affairs" or is one of "impression and common sense".[18]
A trial judge is:

> … entitled to give effect to his own opinion as to the likelihood of deception or confusion and in doing so is not confined to the evidence of the witnesses called at trial.[19]

Importantly, the court said: "In the present case the dominant visual impression of the applicants' trade marks is not just stripes but three stripes in a different or contrasting colour to the footwear." Further, although the court accepted that "the mark's notoriety is relevant", it did not accept that "the fame of the mark has the consequence in the present case that a four stripe mark could never be deceptively similar to the applicants' trade marks".[20]

Although the court accepted "that the average consumer would not have forgotten the applicants' trade marks", it did "*not* assume that the average consumer would perfectly recollect the number of stripes"[21] (emphasis added).

It is well-known that consideration of deceptive similarity in trade marks law is at once broader and narrower than the same issue as it arises in passing off. Broader, in that to establish *confusion* is sufficient — that a number of persons are *caused to wonder* as to the origin of the goods will do; the ordinary consumer need not come to an *erroneous conclusion*. Narrower in the sense that all the circumstances are not necessarily to be taken into account — at core, trade marks law requires a comparison of the marks themselves; the question is what relevant context can nonetheless be taken into account in construing this comparative exercise (as it was in relation to trade mark use, above). About that, the court had this to say:

> In my opinion, the issue being one of fact, what the relevant context comprehends must vary with the marks in question, to what those marks are applied, and the circumstances in which the marks will be observed and compared.[22]

Price differences and the different character of purchasers were to be given little weight as "the evidence does not establish any clear differentiation between the two when making the required comparison of the marks".[23] Therefore:

> On the facts of the present case, I give greatest weight to the marks being used on shoes and to a purchaser of the respondent's shoes seeing them in the setting of a store and being able to look at them in that setting.[24]

Having made these general observations, the court then went on to consider each shoe in turn. For that purpose, the statement included in the quote above that "I accept that the average consumer would not have forgotten the applicants' trade marks but I do not assume that the average consumer would perfectly recollect the number of stripes", has important implications. There is no automatic ruling out of a four stripes sign as being potentially deceptively similar. Despite the undoubted fame of the Adidas three stripes mark, consumers might still be uncertain in their recollection of the precise number of stripes in the mark, and at the very least be led to wonder (a low threshold) whether a four stripes mark might signify a connection with Adidas. Adidas was not made a victim of its own success; this provides an interesting contrast with one of the South African decisions considered below, where that was exactly the result called for.

The court hinted in the passage above at the approach it would ultimately adopt: to identify the essential features or the "dominant visual impression" of the mark and compare those with the impugned marks; thus, also whether there were three or four stripes is not by itself determinative because the positioning and relationship of the stripes were so important. In relation to the first of the infringing shoes, the court said the following:

> I note in particular the parallel equidistant stripes of equal width (with blue edgings) in a different or contrasting colour to the footwear, running from the lacing area to the instep area of the shoes.[25]

In a similar vein, the South African Appeal Court in *Pepkor* said that it "is the configuration of the marks that will impress itself upon the mind".[26]

Taking the typical configuration of the Adidas trade mark as the feature to search for in the impugned shoes, only three showed a very precise match (the Airborne, Stingray and Apple Pie). This was despite the fact that

they showed an increasing variation in space between the second and third stripes and some patterning on the background material. The other shoes all displayed quite prominent differences: clear striations running across the three stripes or below, integration with structural features of the shoe, differences in positioning and size, and so on.

Australian Woollen Mills and the relevance of intention

As to intention, the status of the principle held to be "wholesome in tendency" in *Australian Woollen Mills* attracted some helpful attention.[27] In quite a number of recent cases, the principle has had a very significant impact: but what does it actually mean?

In *Australian Woollen Mills*, the High Court said (against the background that intention is not a necessary element for passing off or misleading and deceptive conduct) that:

> The rule that if a mark or get-up for goods is adopted for the purpose of appropriating part of the trade or reputation of a rival, it should be presumed to be fitted for the purpose and therefore likely to deceive or confuse … is as just in principle as it is wholesome in tendency.[28]

The essence of the approach emerges from the following later sentence in the same case:

> … when a dishonest trader fashions an implement or weapon for the purpose of misleading potential customers he at least provides a reliable and expert opinion on the question whether what he has done is in fact likely to deceive.[29]

It seems that intention to deceive will have to be proven otherwise than by pointing to the similarity between the brands.

In *Pacific Brands*, the essence of the applicant's evidence was that the respondent as successors in business to a former licensee of Adidas was aware of the considerable commercial success of products bearing the three stripes marks; that the sequence of product development together with the "strategy" to deal with Adidas complaints demonstrated a conscious attempt to create colourable variations on the three stripes mark while retaining their essential features in an effort to maintain plausible deniability of infringement, while still suggesting the three stripes mark to consumers; and that the respondent had copied other aspects of the shoes, which was indicative of an intention to trade off Adidas's reputation, making them perceive some association between the three and four stripes marks.[30]

In the end, the court in *Pacific Brands* dealt with all the intention related evidence curtly: here the intention as it emerges from the evidence was to sail close to the wind, that is "to come close to but to avoid infringement".[31] The court said "intention does not assist at a general level",[32] seemingly requiring evidence of a subjective intention in the mind(s) of employees to "trade off the reputation of [A]didas in the 3-Stripe Trade Marks by causing confusion between the mark on the impugned shoes and the 3-Stripe trade marks".[33] Thus, the operation of the principle in *Australian Woollen Mills* was quite narrowly confined — it requires concrete evidence of a dishonest intent to deceive consumers. However, the river of *Australian Woollen Mills* cannot rise above its source: the resemblance will still have to be sufficient to justify the conclusion of deceptive similarity. For most of the shoes in Pacific Brands, that resemblance was simply not there according to the court. It therefore dismissed the whole issue of intention and application of *Australian Woollen Mills*, and formed its own conclusion simply on the basis of the comparative exercise within the parameters it had set.

Comparative and policy comments — Adidas South Africa

In the South African Adidas matter, *Pepkor*, the trial decision was overturned by the Appeal Court. The approach taken at the trial level is particularly interesting from the perspective of the trend we identified above, of companies moving from pure sports to fashion and from badge of origin trade marking to trade mark fashion designs. Judicial acceptance that a mark can be used as a mark even if it *also* performs a design function — is also intended to be visually appealing — benefits trade mark owners of highly visible consumer brands. But the inevitable result of blurring the lines between visual appeal and semiotic function is that the mark is given much more prominence: the mark is no longer confined to its traditional box (eg on the label inside the collar and perhaps a small brand on the top left panel of a shirt).

One effect of the greater prominence of the mark as a decorative feature (for example displayed largely and multiple times across the front of a shirt) might be that consumers become so familiar with, and so desirous of the *real* mark, that even subtle (if that is what four versus three stripes is) differences will be immediately noticed. In that case, the trade mark owner would become *the victim of its own success.*[34] Thus, the mark's prominence had both negative and positive potential implications in *Pepkor*. For trade mark use, the implications were positive for Adidas on the basis that the four stripes of the respondent were held by the Appeal Court to look like they were performing a trade mark function *because consumers were so familiar with the Adidas stripes performing that function.*[35] The court put it as follows:

> As far as the factual enquiry is concerned, this Court said in *Verimark (Pty) Ltd v BMW AG; BMW AG v Verimark (Pty)*

> *Ltd*, that for infringement it must be established that consumers are likely to interpret the mark, as it is used by the third party, as designating or tending to designate the undertaking from which the third party's goods originate.[36]

This was more likely if the impugned mark closely resembled a reputed mark, as is implicit in this further statement:

> The consumer is used to manufacturers of sporting footwear applying a variety of stripes to their products to identify them (the adidas stripes are merely one example) and there is no reason why the consumer would perceive marks similar to the first appellant's registered trademarks to be merely embellishment or decoration.[37]

The relevant question in relation to trade mark use is more practical and less conceptual than its Australian equivalent, and is more favourable to the trade mark owner, certainly where the mark has a strong and widespread reputation.

But prominence can also work negatively against the trade mark owner, as was apparent from the approach taken by the Trial Court. Because consumers were so familiar with the Adidas three stripes mark, they would necessarily be alert to the difference when *four* stripes appear on a boot.[38] The court said as follows:

> Since the Adidas 3-stripe mark has not only been advertised by means of the sale of Adidas products in South Africa, but also by means of promotion at sport events and in movies screened in South African cinemas and on television, there can be little doubt that the average South African consumer of applicants' goods would be sufficiently discerning to distinguish applicants' trade mark from the 2 and 4 stripe combinations on shoes of respondent because South African consumers associate international branded shoes with a higher price category than shoes that are branded by South African companies thereby making allowance for import duties and related costs.
> …
> Applicant's argument that their shoes are sold in South Africa to a lower-socio economic group of consumers as well who aspire to wearing their footwear may well be correct.
> It is however not correct to suggest that those consumers are not able to distinguish applicants' shoes from those of respondents where the latter sells their shoes for a lesser price with features different to that of applicants' shoes, namely 2 or 4 stripes with a device, name or brand label different to that of applicants.[39]

In *Pacific Brands*, as we mentioned above, even configurations that really did not appear like trade marks but had some parallel-ish slanting stripes between laces and sole were nonetheless held to perform a trade mark function, even though they would arguably appear structural, functional or decorative. The key was that they were placed in a position where consumers expected to see brands on shoes. In terms of the number of stripes, adding or subtracting a stripe was held not to be enough in itself to "get away with it" despite the fact that Adidas *famously* has three stripes and not two or four. The court had greater regard for the configuration of the stripes than only for the number of stripes — the latter damned Adidas in South Africa (according to the trial but not the Appeal Court) because the mark's prominence would alert the consumer to the difference.[40]

The points raised in *Pepkor* do highlight the fact that the scope of the Adidas trade mark monopoly resulting from the Australian approach is arguably quite broad. Any party who uses two or four stripes in a slanting parallel position in the instep of a shoe runs sufficient risk to want to back off in the face of Adidas's demands. The Trial Court in the South African case succinctly identified the policy difficulty with that position: "The mark that applicants set out to register and in fact registered encompasses 3-stripes only. It did not seek to register any combination of 2 or 4 stripes."[41]

Concluding comments

If we recall that Adidas has a number of trade marks relating to three stripes on an array of sports clothing, and that it has expanded the category of sports clothes into the realm of day-to-day wear and fashion, it is apparent that what is a trade mark monopoly in a badge of origin starts to look more like an effective monopoly in a certain fashionable look or design. The question then arises of whether the overlap with other regimes (copyright and designs) is more overtly geared to that policy purpose. If any clothing manufacturer or supplier, and not only just in the sporting gear and apparel section of the market (if such a sector still exists), has to worry about two to four parallel stripes positioned either on the outside of a short or long sleeve, the outside of pants, shorts and skirts, the side beneath the arm of T-shirts, blouses and jackets, and shoes, then one must wonder whether the realm of trade marks law has not expanded too far. However, this might simply be the necessary implication of accepting that a sign can perform both a badge of origin and a decorative function in trade marks law — and that this idea is in step with real trends and needs in the fashion industry.

But the matter does not end there, as Adidas's mark has become accepted as a "well-known mark" in a number of jurisdictions. "Well-known" when used in relation to a registered mark is a technical term which implies more effective legal protection in relation to use of a registered mark on different goods. In the case of Adidas, the "power" of its exclusive rights over three stripes on shoes, clothing and apparel thus starts to penetrate into unrelated goods sectors.

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Footnotes

1. *Adidas AG v Pacific Brands Footwear Pty Ltd (No 3)* (2013) 308 ALR 74; [2013] FCA 905; BC201312738.
2. *Adidas AG v Pepkor Retail Ltd* (187/12) [2013] ZASCA 3.
3. *Adidas America, Inc v Puma North America, Inc* Case No 3:2017cv00283 (D Or, 2017) https://consumermediallc.files.wordpress.com/2017/02/adidaspuma1.pdf.
4. On 31 October 2016, Adidas filed a notice of opposition to an application to register a mark for sporting goods by Barcelona Football Club. The application was subsequently withdrawn by Barcelona. Link to notice available here: http://ttabvue.uspto.gov/ttabvue/v?pno=91230938&pty=OPP&eno=1.
5. On 2 March 2017, Adidas filed a notice of opposition to an application to register a mark for use on clothing by Tesla Motors Inc. The application was subsequently withdrawn by Tesla. Link to notice available here: http://ttabvue.uspto.gov/ttabvue/v?pno=91232672&pty=OPP&eno=1.
6. In Australia, Adidas has current registrations for approximately 90 trade marks which include words and marks. An example of a registered trade mark for a mark is trade mark no 386758 which consists of stripes that are "applied longitudinally along the sides of the article of clothing, and extend substantially continuously along the length of such portions of the article".
7. E Farra "Adidas by Stella McCartney" *Vogue* 1 February 2017 www.vogue.com/fashion-shows/spring-2017-ready-to-wear/adidas-by-stella-mccartney.
8. N Phelps "Yeezy" *Vogue* 16 February 2017 www.vogue.com/fashion-shows/fall-2017-ready-to-wear/kanye-west-adidas-originals.
9. C Danforth, *Behind the Crowns: Adidas on Being the Most Relevant Brand of 2016*, 8 February 2017, www.highsnobiety.com/2017/02/08/adidas-interview-highsnobiety-crowns/ and A Matera "Adidas named most relevant fashion brand of 2016 by Highsnobiety" *Teen Vogue* 13 January 2017 www.teenvogue.com/story/adidas-most-relevant-brand-2016.
10. See R Torgerson "Puma sues Forever 21 over Rihanna creepers and bow slides copycats" *Cosmopolitan* 3 April 2017 www.cosmopolitan.com/style-beauty/fashion/a9222856/puma-sues-forever-21-fenty/.
11. Above n 1, at [34].
12. Above n 1, at [53].
13. Above n 1, at [54].
14. Above n 1, at [57].
15. The passing off analysis in a typical shoe purchasing environment is well illustrated by *Dr Martens Australia Pty Ltd v Rivers (Australia) Pty Ltd* (1999) 47 IPR 499; [1999] FCA 1655; BC9908008.
16. *Australian Woollen Mills Ltd v FS Walton & Co Ltd* (1937) 58 CLR 641; [1937] HCA 51; BC3790107.
17. There had been a number of preliminary skirmishes about admissibility in this matter which we do not comment upon here.
18. Above n 1, at [214] and [215].
19. Above n 1, at [215].
20. Above n 1, at [217]–[219].
21. Above n 1, at [219].
22. Above n 1, at [222].
23. Above n 1, at [223].
24. Above n 1, at [225].
25. Above n 1, at [235].
26. Above n 2, at [26].
27. Above n 1, at [99].
28. Above n 1, at [99].
29. Above n 1, at [99].
30. Above n 1, at [104].
31. Above n 1, at [178].
32. Above n 1, at [178].
33. Above n 1, at [179].
34. As for instance, the term "Maltesers" was in *Mars Australia Pty Ltd v Sweet Rewards Pty Ltd* (2009) 81 IPR 354; [2009] FCA 606; BC200904981.
35. Above n 2.
36. Above n 2, at [14].
37. Above n 2, at [15].
38. *Adidas AG v Pepkor Retail Ltd* (14605/2009) [2011] ZAWCHC 444; [2012] 1 All SA 636 (WCC).
39. Above n 38, at [100]–[102].
40. Ultimately, Adidas also won in South Africa. We use some passages from the SA decisions merely to illustrate some important policy issues.
41. Above n 38, at [105].