

CA 11487/03

1. August Storck KG
2. Storck Service GmbH

v.

1. Alpha Intuit Food Products Ltd.
2. Hagit Musaif

The Supreme Court sitting as the Court of Civil Appeal
[23 March 2008]

Before Vice-President E. Rivlin, Justices A. Grunis, E. Rubinstein

Appeal on the judgment of the Tel-Aviv-Jaffa District Court in CC 2191/03
from 19 November 2003 handed down by the Hon. Justice Y. Zeft

Facts: The appellants filed suit against the respondents for violation of a registered trademark and unjust enrichment. The appellants argued that the marketing by the respondents of a candy with a similar shape to the Tofifee candy that the appellants manufacture and market constitutes a violation of the appellants' trademark. The District Court dismissed the appellants' claim that their commercial trademark is a three-dimensional mark comprised of the shape of the Tofifee candy and determined instead that the appellants' mark is a two-dimensional mark that does not protect the shape of the Tofifee candy, but rather only the graphic shape as presented in the Trademark Registry's abstract. It was further held that even if the Trademark Ordinance [New Version] 5732-1972 enables the registration of three-dimensional trademarks, the shape of the product itself cannot be registered as a trademark. The District Court held that the marketing of a candy similar in shape to the shape of the candy that appears under the appellants' trademark does not constitute a violation of the trademark. The District Court also compared the packaging of the respondents' and appellants' candy and concluded that the packaging of the respondents' candy does not create a risk of misrepresentation and does not violate the appellants' mark. The appellants appealed the District Court's decision.

Held: The Court held that the three-dimensional shape of a product is not eligible for registration based on its possession of an inherently distinctive character. However, it is eligible for registration on the basis of its possession of an acquired distinctive character. The Court further held that to the extent that the shape of the product fulfills a functional or aesthetic role (beyond a negligible role), the trademark will not be eligible for registration even if it acquired a distinctive character in fact. The judgment of the District Court was overturned, such that the proceeding was remanded to the lower Court for determination of the validity of the appellants' mark according to the rules set out in the judgment. As to attorneys' fees for the appeal, it was held that they be ordered based on the outcome in the District Court.

Basic Laws cited:

Basic Law: Human Dignity and Liberty, ss. 3, 8, 10.

Legislation cited:

Trademark Ordinance [New Version] 5732-1972 (hereinafter: 'the Ordinance')

Copyright Law 5768-2007

Patents Law 5727-1967

Regulations cited:

Trademark Regulations, 1940.

Israeli Supreme Court cases cited:

[1] CA 3559/02 Toto Zahav Members' Club v. Council for Regulation of Gambling in Sports, IsrSC 59(1) 873 (2004).

[2] HCJ 296/85 Sia Siak How (Anthony) v. Patent, Pattern, and Trademark Registrar, IsrSC 40(4) 770.

[3] CA 5972/99 Tikshoret v'Chinuch Dati-Yehudi Mishpacha (1997) Ltd -Mishpacha Newspaper v. S.B.C. Advertising, Marketing, and Sales Ltd. - Mishpach Tova Newspaper, IsrSC 55(3) 933 (2001).

[4] LCA 371/89 Leibovitz v. A. And Y. Eliyahu Ltd., IsrSC 44(2) 309 (1990).

[5] FHCA 4465/98 Tivol (1993) Ltd v. Chef Ha'Yam (1994) Ltd., IsrSC 56(1) 56 (1994).

[6] CA 513/89 Interlego A/S v. Exin-Lines S.A., IsrSC 48(4) 133 (1994).

- [7] CA 7125/98 Mifromal Jerusalem Industries v. Kalil Industries Ltd., IsrSC 57(3) 702 (2003).
- [8] CA 3406/96 Sela Cement Products Ltd. v. Akerstein Industries Ltd., (unreported, 1 March 1999).
- [9] CA 3776/06.
- [10] HCJ 144/85 Kalil, Non-Iron Metal Industries Ltd. v. Patent, Design and Trademark Registrar, IsrSC 42(1) 309 (1988).
- [11] CA 4675/97 Rehov v. State of Israel, IsrSC 53(4) 337.
- [12] CA 941/05 Vinegrowers of Rishon L'Zion and Zichron Ya'acov Cooperative Society v. Kerem Company Ltd. (not yet reported, 17 October 2006).
- [13] CA 4030/02 Amichai Trade Ltd. v. Shoris Erkot Navadim Ltd., IsrSC 58(5) 632
- [14] CA 2673/04 Coffee to Go Marketing (1997) Ltd. v. Shaked, (not yet reported, 15 April 2007).
- [15] CA 18/86 Israeli Glass Factories Fenecia Ltd v. Les Verreies De Saint Gobain, IsrSC 45(3) 224.
- [16] CA 5454/02 Ta'am Hateva (1988) Tivoli Ltd. v. Ambrosia Superav Ltd., IsrSC 57(2) 438.

Israeli Magistrate Court cases cited:

- [17] Ein Gedi Cosmetics Ltd. (unreported).

American cases cited:

- [18] Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763 [1992].
- [19] Wal-Mart Stores, Inc. v. Samara Brothers, Inc., 529 U.S. 205 [2000].
- [20] Traffix Devices, Inc. v. Marketing Displays, Inc., 532 U.S. 23 [2001].
- [21] Qualitex Company v. Jacobson Products Company, Inc. 514 U.S. 159 [1995].
- [22] Valu Engineering, Inc. v. Rexnord Corp., 278 F.3d 1268 [2002].

Canadian cases cited:

- [23] Kirkbi AG v. Ritvik Holdings Inc., 2005 SCC 65.
- [24] Kirkbi AG v. Ritvik Holdings Inc. [2003] F.C.J. No. 1112 (F.C.A.).
- [25] Thomas & Betts, Ltd. v. Panduit Corp. [2000] F.C.J. No. 11 (F.C.A.).
- [26] Remington Rand Corp. v. Philips Electronics N.V. [1995] F.C.J. No. 1660 (F.C.A.).

English cases cited:

- [27] Coca-Cola Co., Re [1986] 2 All E.R. 274.
- [28] Reckitt and Colman Products Ltd. v. Borden Inc. [1990] 1 All ER 873.
- [29] Philips Electronics NV v. Remington Consumer Products Ltd. [1999] R.P.C. 809.

European Court of Justice cases cited:

- [30] C-456/01, 457/01 Henkel KGaH v. OHIM (2004), sections 34-39 found on the internet site of the ECJ, <http://curia.europa.eu/en/content/juris/index.htm>
- [31] C-25/05 August Storck KG v. OHIM, sections 25-29, also found on the internet site of the ECJ.
- [32] Philips Electronics NV v. Remington Consumer Products Ltd. [2002] All ER (EC) 634.

Israeli books cited:

- [33] A.H. Zeligson, Trademark Laws and Related Laws (1972).
- [34] Amir Friedman, Trademarks - Law, Case Law, and Comparative Law (2nd edition, 2005).
- [35] Uma Suthersanen, Design Law in Europe (2000).
- [36] G. Ginat, 'Passing Off' Tort Law -The Various Torts (G. Tadeschi, ed. 1982).
- [37] M. Deutsch, Commercial Torts and Trade Secrets [2002].

Foreign books cited:

- [38] A. Folliard-Monguiral & D. Rogers, The Protection of Shapes by the Community Trade Mark [2003] E.I.P.R. 169, 178-179.
- [39] David Kitchen, David Llewelyn, James Mellor, Richard Meade, Thomas Moody-Stuart & David Keeling, Kerly's Law of Trade Marks and Trade Names (14th ed., 2005), Chapter 6.
- [40] Christopher Wadlow, The Law of Passing-Off - Unfair Competition by Misrepresentation (3rd Ed., 2004) 663-693

Foreign articles cited:

- [41] S. Asschenfeldt, 'Protection of Shapes as Trademarks', IIP Bulletin 2003(found in the internet site of Institute of Intellectual Property (IIP):

http://www.iip.or.jp/e/summary/pdf/detail2002/e14_14.pdf).

[42] A. N. Falkides, 'In Defense of Product Configuration Protection: A Comparison of British and United States Trademark Law', 10 U. Pa. J. Int'l Bus. L. 125 (1988) 158.

[43] D.W. Opderbeck, 'An Economic Perspective on Product Configuration Trade Dress', 24 Seton Hall Legis. J. 327 (2000).

[44] J.J. Ferretti, 'Product Design Trade Dress Hits the Wall...Mart: Wal-Mart v. Samara Brothers', 42 IDEA 417 (2002).

[45] T.M. Barber, 'High Court Takes Right Turn in Traffix, but Stops Short of the Finish Line: An Economic Critique of Trade Dress Protection for Product Configuration', 7 Marq. Intell. Prop. L. Rev. 259 (2003).

[46] Dana Beldiman, 'Protecting the Form But Not the Function: Is U.S. Ready for a New Model?', Santa Clara Computer & High Tech L.J. 529 (2004).

[47] M. A. Lemley, 'The Modern Lanham Act and the Death of Common Sense', 108 Yale L.J. 1687 (1999).

[48] Lars Smith, 'Trade Distinctiveness: Solving Scalia's Tertium Quid Trade Dress Conundrum', 2005 Mich. St. L. R. 243 (2005).

Other:

[49] Trademarks Act

[50] Restatement of the Law Third - Unfair Competition, sec. 16-17 (1995).

For the appellants - A. Price; S. Kasher-Hitin

For the respondents - Y. Harkabi

JUDGMENT

Justice A. Grunis:

We have before us the judgment of the Tel Aviv District Court of 19 November 2003 (the Hon. Justice Y. Zeft), which dismissed the suit that was brought by the appellants against the respondents for the torts of violation of a registered trademark and unjust enrichment.

The factual background and the decision of the lower Court

2. Appellant no. 1 (hereinafter: August), a company incorporated in Germany, is the manufacturer of candies, including a chocolate caramel candy that has been marketed in Israel since 1996 under the name 'Tofifee.'

This is a chocolate and caramel candy whose shape resembles a half-dome, similar to an acorn (this candy will hereinafter be called 'the Tofifee candy'). On 15 April 2003, August filed an application to register a trademark - which included a photograph of three units of the Tofifee candy from three different angles - in the Trademark Registry (hereinafter: the Registry). On 2 October 2003 the trademark was registered in the Registry (trademark 163894) in relation to the following goods: 'candies, gum not for medical purposes, chocolate, chocolate products, pralines, baked goods, all merchandise above also when manufactured with wine and alcohol; all included in type 30' (the reference is to types of goods mentioned within the fourth addendum to the Trademark Regulations, 1940 (hereinafter: the Regulations)). Appellant no. 2 was registered in the Registry as the proper holder of the trademark (for convenience, the aforementioned trademark will be referred to below as - 'the appellants' trademark' or 'the trademark'). Respondent no. 1 (hereinafter: Alpha) is a company that deals in the import and marketing of candies. Respondent no. 2 (hereinafter: Musaif) is the CEO of Alpha and a shareholder in the company. Alpha imports into and markets in Israel a chocolate caramel candy whose three-dimensional shape resembles the shape of the Tofifee candy. This candy is marketed in packaging on which the name 'Chocodan's' appears (hereinafter: the Chocodan's candy). On 21 October 2003 the appellants filed suit in the District Court of Tel-Aviv against the respondents. In the suit it was claimed that the marketing by Alpha of a candy with a similar shape to that of the Tofifee candy constitutes a violation of the appellants' trademark. It was further claimed that the packaging in which the Chocodan's candy is marketed also violates the appellants' trademark. The appellants also claimed that said actions of the respondents constituted unjust enrichment. The appellants petitioned, inter alia, for a permanent injunction to prohibit the respondents from importing and marketing the Chocodan's candy or any other candy with a similar shape to that of the appellants' trademark. In addition, the appellants sought monetary compensation. On the day the suit was filed the appellants also filed a petition for a temporary injunction. During the hearing on the petition for a temporary injunction, the lower Court proposed to the parties that its decision in the petition also constitute a decision in the primary lawsuit. Following the parties' agreement to this proposal, the District Court handed down, on 19 November 2003, a judgment dismissing the suit.

3. In its judgment, the District Court dismissed the appellants' claim that their commercial trademark is a three-dimensional mark comprised of the shape of the Tofifee candy. Instead it was determined that the appellants' mark is a two-dimensional mark that does not protect the shape of the Tofifee candy,

but rather only protects the graphic shape as presented in the Registry's abstract. It was further held that even if the Trademark Ordinance [New Version] 5732-1972 (hereinafter: 'the Ordinance') allows for the registration of three-dimensional trademarks, the shape of the product itself is not eligible for registration as a trademark. In light of the above, the lower Court established that the marketing of a candy similar in shape to the shape of the candy that appears under the appellants' trademark does not constitute a violation of the trademark. The District Court then compared the packaging of the Chocodan's candy to that of the Toffee candy and concluded that the Chocodan's candy's packaging does not create a risk of misrepresentation. This being so, it does not constitute a violation of the appellants' mark. Hence the appeal before us.

Summary of the parties' claims and the issues requiring determination

4. In the appeal before us the appellants claim that their trademark is a three-dimensional mark comprised of the shape of the Toffee candy. In this context they object to the determination of the lower Court, according to which the three-dimensional shape of the product is not eligible to serve as a trademark. Based on this argument, the appellants claim that the shape of the Chocodan's candy - which is similar to that of the trademark -violates their mark. The presentation of the shape constituting the trademark on the packaging of the Chocodan's candy also constitutes a violation of the mark, according to the appellants. The appellants further claim that even if their trademark is determined to be two-dimensional, the three-dimensional shape of the Chocodan's candy should be considered to violate it. On the other hand, the respondents claim that the mark of the appellants is a two-dimensional trademark, and that the marketing of the Chocodan's candy does not violate the trademark. The respondents rely on the conclusion of the lower Court according to which the three-dimensional shape of the product is not eligible to serve as a trademark. We will relate first to the issue of the character of the appellants' mark and the effect of this issue on our matter. Then we will proceed to discuss the question of whether the three-dimensional shape of the product is eligible to be registered as a trademark in relation to goods of the type of the particular product.

The character of the appellants' mark

5. Section 1 of the Ordinance includes, inter alia, definitions of the terms 'mark' and 'trademark':

"Mark' - letter, numerals, words, devices, or other signs, or combinations thereof, whether two-dimensional or three-dimensional;

'Trademark' - a mark used, or intended to be used, by a person in relation to goods he manufactures or deals in; ..."

As said above, the appellants' mark as it appears in the Registry is comprised of a photograph of three units of the Tofifee candy from three separate angles. The lower Court reached the conclusion that the mark is two-dimensional and protects only the graphic shape presented in the Registry abstract. This is because, inter alia, the Registry does not include any reference to the mark being three-dimensional and to the products to which the mark relates. I cannot agree with this determination. Regulation 15(1) of the Regulations relates to the manner in which the trademark is to be presented in an application to register a trademark:

'15. (1) Any application to register a trademark must contain a drawing of the trademark... and if the mark is three-dimensional a drawing or a picture in the image of the mark will be attached in such a manner that it will be possible to observe the image from all sides...'

We see that with respect to the registration of a three-dimensional trademark, the Regulations require a drawing or a picture of the image of the mark, such that it is possible to observe the mark from all sides. The photograph of the appellants' mark that appears in the Registry abstract clearly fulfills this requirement. The Regulations do not include any requirement of a written comment noting that the trademark is three-dimensional. The fact that it was not noted in the Registry abstract of the appellants' mark that it is a three-dimensional mark does not, therefore, lead to the conclusion that it is not such a mark. We note that despite the absence of a requirement that it be indicated that the mark is three-dimensional, as a matter of policy it is appropriate for the Registrar of Trademarks (hereinafter: 'the Registrar') to be pedantic in relation to such registration. This will increase the certainty as to the nature of registered marks and minimize debate regarding this matter. Indeed, in a circular published by the Registrar in August 2004 (after the filing of the appeal before us) regarding applications to register three-dimensional marks, it was established that the registration of such a mark is conditional upon the addition of a note clarifying that the mark is three-dimensional (circular no. M.N. 38 dated 17 August 2004 (hereinafter: the 'Registrar's Circular')).

6. Contrary to the determination of the lower Court, the Registry abstract for the trademark specifically noted the type of goods in relation to which the mark was registered. These goods include, inter alia, candies, chocolates, chocolate products and pralines. Indeed, in principle it is possible to argue that like most of the trademarks registered in the Registry, the mark of the appellants is also a two-dimensional mark. However, in light of the fact that the mark is comprised of a simple photograph of three units of the Tofifee candy from three different angles, and that it was registered in relation to

goods in the same category as the Tofifee candy, the probable conclusion is that the appellants' mark was registered as a three-dimensional mark which relates to the (three-dimensional) shape of the Tofifee candy. However, we will add that even were we to conclude that the appellants' mark is a two-dimensional mark comprised of a graphic display of the Tofifee candy, this would not necessarily be sufficient reason to dismiss the argument that the shape of the Chocodan's candy violates the appellants' mark. It is possible that under certain circumstances it would be established that a two-dimensional trademark is violated by the three-dimensional use of the shape displayed in the mark (see H. Zeligson, *Trademark Laws and Related Laws* [33] and the references mentioned there; also compare, A. Folliard-Monguiral & D. Rogers, *The Protection of Shapes by the Community Trade Mark* at pp. 178-179 (hereinafter: 'Rogers'); compare further, section 12(2) and 12(3) of the Copyright Law, 5768-2007 (the Law has not yet come into effect)). It should be noted parenthetically that the discussion which will follow as to the eligibility of a three-dimensional shape of a product to be registered as a trademark may have implications for this matter as well. To the extent that it is determined that the three-dimensional shape of a product is not eligible to serve as a trademark, whether in general or under specific conditions, it is clear that it will also be impossible to protect the three-dimensional shape by registering a two-dimensional mark comprised of a graphic display of the shape of the product. Moreover, it is possible that those same limitations which apply to registering a three-dimensional mark in relation to the shape of the product, also apply to registering a two-dimensional mark comprised of a graphic display of the shape of the product (for support of this position in European Union law, see paragraphs 20-21, below).

7. We have therefore reached the conclusion that the appellants' mark was registered as a three-dimensional mark that refers to the shape of the Tofifee candy. In this we have accepted, in fact, the position of the appellants on this matter. In a suit regarding the violation of trademark, there is nothing to prevent a defendant claiming a lack of validity of the mark, based on its ineligibility for registration. In light of section 64 of the Ordinance, which establishes that the registration of a trademark constitutes prima facie evidence of the validity of the registration, the burden of persuasion as to this claim will be imposed on the defendant (see CA 3559/02 *Toto Zahav Members' Club v. Council for Regulation of Gambling in Sports* [1] (hereinafter: 'the Toto case'), 887). In the appeal before us, the respondents claim that the appellants' mark was not eligible for registration, as it is comprised of the three-dimensional shape of the Tofifee candy. According to

their approach, the registration of the mark has no validity. This argument raises a legal issue of a general nature: whether the three-dimensional shape of a certain product is eligible to be registered as a trademark in relation to goods of the same category as the product itself. We will now turn to a discussion of this issue.

The three-dimensional shape of a product as a trademark - presentation of the issue

8. The traditional purpose of a trademark is to identify the source of the goods in question in such a way that the consumer public, upon seeing the mark, will associate it with a specific source. It is currently accepted that the mark need not signify for the consumer the exact identity of the source of the goods; rather, it is sufficient that it create a link between the products that carry the mark in such a way that consumers will know that the source of the products is the same. (HCJ 296/85 *Sia Siak How (Anthony) v. Patent, Pattern, and Trademark Registrar* [2] at p. 777). The trademark enables its owner to distinguish his products from those of his competitors, and thereby protect his goodwill and prevent consumers being misled as to the source of the goods. Thus, the trademark makes it easier for consumers to find their way in the relevant market and to identify the specific product they wish to purchase. In order to achieve these goals, the Ordinance grants the owner of the trademark exclusivity over the use of the mark for those goods in relation to which it was registered (section 46 of the Ordinance). In other words, the trademark is expropriated, in its commercial context, from the public domain (the *Toto* case [1], p. 888). The condition whereby in order to be eligible for registration, a mark must have the ability to differentiate ("distinctive character") between the goods of the owner of the mark and those of others is derived from the role of the trademark as a means of identification and differentiation. In this context, two possibilities must be mentioned: first, it is possible that the mark will have a distinctive character by its very nature, which means having an inherent distinctive character. Thus, for example, marks comprised of words that are the product of imagination and invention, are generally considered to have an inherent distinctive character. Secondly, even if the mark does not have an inherent distinctive character, it is possible that consequent upon its use, it acquired a secondary distinctive character such that the consumer public associates it with goods of a specific source. In such a case it can be said that the mark acquired an actual distinctive character, i.e. the mark has an acquired distinctive character (on the distinctive character requirement see section 8 of the Ordinance; on the accepted distribution of names as to their distinguishing character see CA 5972/99 *Tikshoret v'Chinuch Dati-Yehudi Mishpacha* (1997) Ltd -Mishpacha

Newspaper v. S.B.C. Advertising, Marketing, and Sales Ltd. -Mishapach Tova Newspaper [3] at pp. 943-946, as well as Amir Friedman, Trademarks - Law, Case Law, and Comparative Law, pp. 121-152 [34](hereinafter: 'Friedman')). We will add that a trademark's current period of validity is ten years from the date of submission of the application for registration, but the Registrar may extend the registration for additional periods (sections 31-35 of the Ordinance). It will be noted parenthetically that when certain conditions exist the Ordinance also grants protection for marks that are not registered (see the definition of the term 'well-known trademark' in section 1 of the Ordinance).

9. The definition of the term 'mark' in section 1 of the Ordinance (paragraph 5 supra) is a broad definition that also includes, inter alia, three-dimensional images and symbols. This means that there is nothing in principle to prevent the registration of three-dimensional marks, assuming that they fulfill the conditions of registration established in the Ordinance. Indeed, in those cases in which three-dimensional marks are able to represent the product and distinguish it in terms of identifying its source, they fulfill the classic role of a trademark. From this perspective, they are ostensibly worthy of being registered as a trademark, similar to marks of other types. One can think of various types of three-dimensional marks (see S. Asschenfeldt, 'Protection of Shapes as Trademarks' [41]). Thus, there may be marks that are a three-dimensional expression of a letter or a certain shape, and which are entirely separate from the product itself. A similar and additional type of three-dimensional mark refers to marks which are not part of the inherent shape of the product but constitute an external addition to this shape. One of the common examples in this context is the type of three-dimensional object that can be found on the hoods of vehicles and which serves to identify the manufacturer. The appellants' mark, on the other hand, belongs to a different type of three-dimensional mark. This category consists of marks that are comprised of the three-dimensional shapes of products. Naturally, most of these marks are registered in relation to goods of the type to which the product itself belongs. In this context it is common to distinguish between marks comprised of the shape of the product itself, and marks comprised of the shape of its packaging. The appellants' mark belongs, of course, to the first of these two categories. The second category, which involves the shape of the packaging, includes marks that are comprised of the shapes of bottles and other containers containing liquid products. A famous example of a bottle of which we say that its shape serves to identify it, is the bottle marketed by the Coca-Cola Company. We will return to this example later (at times the term 'get-up' is used in order to describe the outer appearance of

the goods as the consumer public expects to see them prior to purchase). When goods are sold in packaging, the get-up is comprised of the packaging in its entirety (get-up of packaging); when goods are sold without packaging, the get-up is comprised of the shape of the product itself (get-up which involves the appearance of the goods themselves). We will add that a mark may also be comprised of a combination of a three-dimensional shape with a word, digit, or other two-dimensional figure. In any case, it should be emphasized that our discussion here focuses on the question of the eligibility of only one out of a number of possible types of three-dimensional trademarks, i.e. a three-dimensional type comprised of the shape of the product itself and which relates to goods of the same category as that to which the product belongs (which is different from the three-dimensional mark comprised of the shape of the product's packaging).

10. As stated, the owner of a registered mark enjoys the right to the exclusive use of the trademark in relation to the goods that he registered. The validity of the trademark is indeed limited to ten years, but it can be extended for additional periods. In other words, when certain conditions are met, the owner of the mark receives a monopoly unlimited in time in relation to the mark. These provisions exist in order to advance the purposes of trademark law, which we discussed above (paragraph 8 *supra*). Consequently, when the trademark is comprised of the three-dimensional shape of the product, this shape is expropriated from public ownership such that only the owner of the mark is entitled to make use of it in relation to the goods for which the mark was registered. The monopoly that the owner of the mark receives in relation to the three-dimensional shape of the product raises formidable difficulties, due to the basic difference between conventional trademarks, which include two-dimensional marks and symbols, and marks comprised of the three-dimensional shapes of products. The role of marks of the first type is fully realized by the marking of the source of the product on which they are imprinted. On the other hand, the shape of a product has, in most cases, an independent function which deviates from the function designated for a trademark. The shape of a product is often dictated by practical considerations, be they functional or aesthetic. By functional considerations we mean that the shape of a product is designed to enable the correct operation of a product and to achieve a certain engineering outcome. At times, it is not possible to manufacture a product other than in a particular three-dimensional way. Thus, for example, a car tire cannot fulfill its function unless its shape is round. In other cases it is indeed possible to manufacture a product in a number of three-dimensional ways, but the adoption of a specific shape will enable more efficient manufacture of the

product relative to other possible shapes. By aesthetic considerations we mean that despite the fact that a certain shape of a product is not necessary to achieve a given functional result, there is a known preference for that shape over other possible shapes for reasons of aesthetics and the preferences of the relevant consumer public.

11. We have seen therefore that the three-dimensional shape of a product is in many cases important in both the functional and aesthetic realms. This fact has ramifications for the discussion of the eligibility of a three-dimensional trademark comprised of the shape of a product. The registration of a trademark of the shape of a product results in the prevention of the possible use of the said shape by the competitors of the owner of the mark. In other words, the other players in the relevant market cannot produce their competing product with a shape that is identical to the shape the subject of the trademark or similar enough to it, in such a way that the competing product would be misleading. Thus, the competitors are denied the functional and aesthetic advantages which are embodied in the given shape. Such a situation may harm the possibility of effective competition with the owner of the mark. (On the importance of free competition see LCA 371/89 *Leibovitz v. A. & Y. Eliyahu Ltd.* [4]; FHCA 4465/98 *Tivol (1993) Ltd v. Chef Ha'Yam (1994) Ltd.* [5], at pp. 77-80 (Justice M. Cheshin, the majority opinion)). We shall explain by way of example. Let us assume that a certain three-dimensional shape of an electric shaver is a functional shape, in the sense that it is known to have importance in achieving the desired technical result. Let us further assume that even if it is possible to achieve the desired technical result via an alternative three-dimensional shape, the cost of manufacture of the product in its alternative shape is higher than the cost of its manufacture in the first shape. If the registration of a trademark comprised of the said shape is permitted in relation to goods in the category of electric shavers, then the competitors of the owner of the mark will be compelled to manufacture shavers in their alternative, more expensive shape. It will therefore be difficult for them to compete effectively with the owner of the mark. The result will be the granting of a significant advantage to the owner of the mark and harm to competition in the electric shaver market. In cases in which there is no readily available alternative shape for achieving the desired functional result, or where the choice of alternative shapes makes the manufacture of the product significantly more expensive, the registration of the trademark of the shape of the product may completely prevent competition in the relevant market and thereby grant the owner of the mark a monopoly within this market (as to the difficulty in the provision of monopolistic protection of functional shapes in the framework of copyright

law, compare CA 513/89 *Interlego A/S v. Exin-Lines Bros. S.A.* at p. 156-160 [6]).

The above example relates to the registration of a trademark comprised of the shape of a product that has functional value. However, this same concern arises with regard to the registration of a mark which is comprised of a product shape of aesthetic value. The shape of a product constitutes a main consideration, or at least a relevant one, in the purchase of many products. As will be clarified below, this reason underlies the legal arrangement established in the framework of the law of designs. The shape with greater aesthetic value is expected to enjoy an important commercial advantage over other shapes, as the consumer public will prefer to purchase a product with such a shape over a similar product with an alternative shape. Registering a trademark in relation to such a shape will prevent competitors from making use of the shape, and will thereby make it difficult for them to compete with the owner of the mark. In this case as well, the result might harm competition.

12. The fact that the three-dimensional shape of the product often has functional or aesthetic significance creates a difficulty in another aspect as well. As stated above, in order for a trademark to fulfill its function as a means of identifying the source of the product, it must possess an inherently distinctive character or an acquired distinctive character (paragraph 8 *supra*). Since a product's shape fulfills additional functions that are not related to the purpose of the trademark, the consumers may see an expression of these functions in the shape and not relate to it as an indication of the source of the product. In other words, the public may think that the shape of the product, even if it is unique, was chosen for functional or aesthetic reasons and is not at all connected to the source of the product. Thus, the fact that the three-dimensional shape of the product serves purposes which depart from those of trademark law raises real doubt as to the ability of the shape to have an inherently distinctive character. As will be discussed below, this issue has also arisen in foreign legal systems.

13. In the framework of the discussion of the eligibility of a three-dimensional shape to be registered as a trademark, it is appropriate to consider also the relationship between copyright law and additional branches of the laws of intellectual property. In this context we refer primarily to patent law and design law. The purpose of patent law is to grant protection to the technological inventions that contain, *inter alia*, innovation and inventive progress (see Chapter B of the Patents Law 5727-1967). The protection granted to a patent is a monopolistic protection that is limited in time. The patent owner is permitted to prevent others from using the patent without his

permission or unlawfully for a period of twenty years (in certain cases, it is possible to extend this period for up to five additional years). One of the primary purposes of the monopoly granted in the framework of patent law is to incentivize the development of inventions that will come into the public domain upon the conclusion of the period of the patent. Design law, for its part, was intended to regulate the protection of innovative or original shapes of industrial products, as long as these shapes draw the attention of the consumer and are not of a functional character (definition of the term 'design' in section 2 of the Patents and Designs Ordinance as well as section 30 of this ordinance; see further CA 7125/98 Mifromal Jerusalem Industries v. Kalil Industries Ltd [7]). The owner of the design also receives a monopoly in relation to the protected shape, for a period of up to fifteen years. Here too the purpose is to encourage development and creativity by means of providing an exclusive right of usage for a limited period of time, such that at the end of the period the entire public will be able to enjoy the fruits of this creation. At the basis of the protection granted to the innovative design of industrial products stands the recognition that 'industrial design serves as the initial promoter of the product, the public relations person of the industrial product' (CA 3406/96 Sela Cement Company Ltd. v. Akerstein Industries Ltd. [8]; see also, Uma Suthersanen, *Design Law in Europe* (2000), p. 1-3). In other words, design law reflects recognition of the known importance of the shape of the product in the framework of the competition for the hearts of consumers.

14. We find that both patent law and design law grant monopolistic protection that is limited in time. As we have said, the purpose is to encourage development and creativity of inventions and designs, in order for these to come into the public domain at the conclusion of the monopoly period. On the other hand, registering a trademark in relation to the three-dimensional shape of a product is likely to grant the owner of the mark a monopoly that is unlimited in time as to the shape of the product. This is because the period in which protection is granted to the trademark can, in principle, be extended an unlimited number of times. The differences, as stated, as to the period of monopoly may incentivize the owners of designs to register the shape of the product as a trademark upon the conclusion of the period of the design's protection, or even earlier. This, even though their real goal is not the use of the shape of the product to identify the source of the goods, but rather the artificial extension of the exclusive right of usage of the shape of the product. In the same manner, the owners of patents may register a trademark as to the shape of a product that is of a functional nature, and thereby prevent the use of the invention even after the conclusion of the

period of the patent. In this way trademark law may serve as a 'bypass route' for design law and patent law, while upsetting the balance - which is at the basis of these laws - between the desire to incentivize creation and development, and the desire to enable public use of designs and inventions. The reason cited above constituted the basis of the refusal of the English House of Lords to register the shape of the bottle of the Coca-Cola Company as a trademark, in their decision on this issue on appeal (Coca-Cola Co., Re [1986] 2 All E.R. 27). In that case, the shape of the bottle was first registered as a design. After the conclusion of the design period, the Coca-Cola Company applied to register the shape of the bottle as a trademark. When its request was denied, and the legal objections that it filed were not successful, the matter reached the doorstep of the House of Lords. The House of Lords was prepared to assume that the shape of the bottle had acquired a distinctive character. Nonetheless it dismissed the appeal and determined that the shape of the bottle could not be registered as a trademark. It was determined that the definition of trademark relates only to something that is external to the product, and the product cannot serve as its own trademark. This judgment indicates that the House of Lords disapproved of the attempt of the Coca-Cola Company to extend the exclusive right of usage of the shape of the bottle after it expired, upon the conclusion of the design period. In this context it was held that the laws of trademark were not intended for the purpose of granting an unlimited monopoly to the shape of a container (for the change that occurred in English law after this decision was handed down, see paragraph 18 ff.). Furthermore, the desire to prevent the bypassing of design law via registration of three-dimensional trademarks in relation to the shape of products is at the basis of the limitations established in the Registrar's circular concerning the registration of these marks. According to the Registrar's circular, the registration of such marks will be considered only in special and exceptional cases, in which it is proven that two cumulative conditions are met: (a) use was made of the requested image to mark the goods and identify the source of the goods; and (b) as a result of such usage, the mark acquired a sufficiently distinctive character to establish that it does indeed constitute a special and exceptional case (paragraph C of the Registrar's circular; see further the comprehensive decision of the Trademark Registrar on the subject of the registration of three-dimensional marks that are comprised of the shape of the product or the shape of its packaging: Ein Gedi Cosmetics Ltd.[17]; an appeal was filed on this decision which has not yet been decided: CA 3776/06 [9]).

15. The issue of the eligibility of a trademark with a functional character was discussed in the past by this Court in HCJ 144/85 Kalil, Non-Iron Metal

Industries Ltd. v. Patent, Design and Trademark Registrar [10] (hereinafter: the Kalil case). In that case Justice S. Netanyahu ruled that features which serve any functional purposes are not eligible for registration as a trademark, even if they are sufficient to identify the source of the product. In order for any mark to be classified as a functional mark, and therefore as one that is not eligible for registration, it is not necessary that the product cannot be used for its designated purpose without it. Rather, it is sufficient that the mark fulfill any functional role. The reason that was given for this ruling was that the trademark is not intended to protect functional uses that are not protected in the framework of patent law or copyright law (Kalil case, p. 323). Justice Netanyahu's decision indicates that the fact that the mark is functional is only a bar to registration of a mark with an inherent distinctive character. However, it is still possible that a functional mark will be registered as a trademark if it has an acquired distinctive character (the Kalil case, p. 324 between the letters F and G; see further CA 941/05 Vinegrowers of Rishon L'Zion and Zichron Ya'acov Cooperative Society v. Kerem Company Ltd. [12] paragraph 18; Friedman pp. 262-264; and see also section 11(10), 11(11) of the Ordinance). As opposed to what has been stated above, in the framework of the laws of passing off there is no protection for features of a functional nature (CA 4030/02 Amichai Trade Ltd. v. Shoris Erkot Navadim Ltd., [13] at pp. 636-637 (hereinafter: the Amichai Trade case). The question of whether there is a justification for this distinction, and whether it is justified to determine that a functional mark will not receive protection even if it has acquired a distinctive character in fact, is not simple in my view (compare CA 2673/04 Coffee To Go Marketing (1997) Ltd. v. Shaked [14] paragraph 23 (hereinafter: 'the Coffee To Go case')). In any case, and as will be clarified below (paragraph 30), the unique considerations that arise in relation to three-dimensional trademarks of the type we are dealing with lead to the conclusion, at least concerning these marks, that a functional mark is not eligible for registration whether it is of an inherent distinctive character or an acquired distinctive character.

16. The matter of protection of functional features also arises in the context of the laws of passing off. These laws, which are commonly considered to be part of intellectual property law, were intended to protect commercial goodwill from misrepresentation (G. Ginat 'Passing Off', Tort Law -The Various Torts (G. Tadeschi, ed. 1982) [34] at pp. 2-8). From this perspective there is a similarity between the purpose of the laws of passing off and the objective underlying trademark law. Unlike a suit grounded in violation of trademark, in a suit for the tort of passing off the plaintiff must prove that he indeed acquired the goodwill that he seeks to protect (CA 18/86 Israeli Glass

Factories Fenecia Ltd v. Les Verreies De Saint Gobain [15], hereinafter: 'the Fenecia case') p. 230-232)). An additional important difference between the two relates to the manner in which the misrepresentation is examined: whereas in the tort of passing off, it is customary to examine whether the totality of the actions of the defendant created misrepresentation as to the source of the product, in a suit for violation of a trademark the examination is directed primarily at the question of whether there is deceptive similarity between the marks themselves (LCA 5454/02 Ta'am Hateva (1988) Tivoli Ltd. v. Ambrosia Superav Ltd. [16]). It is to be noted that the provision relating to passing off is found today in section 1 of the Commercial Torts Law 5759-1999 (hereinafter: 'the Commercial Torts Law'). In the past a similar provision appeared in section 59 of the Civil Wrongs Ordinance [New Version]. However, the enactment of the Commercial Torts Law did not bring about substantive changes to the previously existing passing off laws (in this context see M. Deutsch Commercial Torts and Trade Secrets pp. 57-61).

17. In the Fenecia case this Court dealt with the question of whether imitating the shape of a product constitutes passing off where this shape is known to have functional or aesthetic importance. It was held as follows:

'6. An additional clarification needed in our matter is that we are dealing in this case with the imitation of the product itself, its shape and appearance, and not the imitation of any name, sound or get-up. This distinction, as we shall see, is significant in terms of the willingness to see the imitation of the product as passing off. The reason for this is the policy of not harming free competition while at the same time protecting goodwill. Therefore, even if the plaintiff's goodwill was proven, the imitation of the product, its shape and appearance, is not regarded as passing off, as long as the imitation is of the functional features and not the features which serve to identify the product with the original. This policy applies with greater force to the product than to its get-up.

...

Only in rare cases is the shape of the product itself, as opposed to its appearance, regarded as a subject for acquiring goodwill and for an injunction.

...

The functional features of the product are not only those which enable its useful functioning from the engineering or technical aspect. Functional features are also those which impact its purpose and operation... Aesthetic features can also be considered functional, when it is a matter of a product which is primarily purchased for its aesthetic value... This is so, for

example, with designs of ceramic pots, where the aesthetic characteristic is an important factor in commercial success. This, as opposed to, for example, a product that has no exhibitory use and whose attractive shape has no significance for the consumer's choice, beyond attribution of the source...' (the Fenecia case, pp. 236-239, and see in particular the references mentioned there. Emphasis mine-A.G.).

From the above, it clearly arises that the scope of the protection afforded to the shape of a product in the framework of the laws of passing off is significantly limited relative to the scope of the protection which is granted to the packaging of the product or its other aspects. At the basis of this distinction is the recognition of the great importance of the shape of the product and the necessity of making it accessible to all competitors in order to ensure free and efficient competition. The distinction between the shape of the product and the shape of the packaging is based on the fact that the shape of the product often embodies practical value - whether aesthetic or functional. Such value is not generally embodied in the shape of the packaging of the product (in this context see 'A. N. Falkides, In Defense of Product Configuration Protection: A Comparison of British and United States Trademark Law' [40]). As we will see below, this distinction also exists in the United States. Now that we have presented, in a comprehensive manner, the matter before us and the various considerations which arise in relation to it, we will move on to examine the way in which various countries have addressed this issue.

The three-dimensional shape of a product as a trademark - comparative law
18. As stated above, in 1986 the House of Lords refused to recognize the possibility that the shape of the bottle used to market a certain drink, is eligible to be registered as a trademark (the Coca-Cola case, paragraph 13 supra). At the time, the Trade Marks Act 1938 was in effect. The judgment did not distinguish between the possibility of registering the shape of the product itself and the shape of the product packaging as a trademark. It appears that it can be inferred from the judgment that even the shape of the product itself is not eligible for registration as a trademark. In 1990 the House of Lords established that an imitation of a lemon-shaped container, which was used to market a lemonade drink, constitutes passing off. This was based on the determination of the lower Court that the plaintiff acquired goodwill in relation to this shape, and the label attached to the defendant's container did not counteract the risk of misrepresentation (Reckitt and Colman Products Ltd. v. Borden Inc.). In other words, the possibility was recognized that the shape of the packaging of the product would enjoy protection under passing off law. Lord Oliver, who wrote one of the two

major opinions, emphasized that it was not necessary to determine the question of whether the shape of the product itself may enjoy protection under the tort of passing off. This is because this case dealt with the shape of the container in which the product was marketed, i.e. the get-up of the product (ibid, pp. 884-885). In relating to the claim that the result of the judgment is the granting of a monopoly unlimited in time for lemon-shaped containers, Lord Oliver noted that the principle according to which a person is not entitled to benefit from another's goodwill by way of misrepresentation is no less important than the principle regarding the prevention of a monopoly as stated (ibid, p. 889). Lord Jauncey, who wrote the second majority opinion, emphasized that the laws of passing off may protect the goodwill of the plaintiff via the granting of a monopoly in the product's get-up. On the other hand, they do not recognize a monopoly as to the shape of the product (ibid, p. 890; for a discussion of the issue of protection of the shape of goods or their get-up in the framework of the laws of passing off see, Christopher Wadlow, *The Law of Passing-Off - Unfair Competition by Misrepresentation* [40]).

19. In 1994, with the legislation of the Trade Marks Act 1994 (hereinafter: 'the 1994 Act'), trademark laws in England underwent comprehensive changes. The new Act is based on a directive of the European Union from 1988, which was intended to partially unite the trademark laws in the Union states (First Council Directive 89/104 of December 21, 1988 to approximate the laws of the Member States relating to Trade Marks (hereinafter: 'the Directive')). We would add that according to the law which applies in the European Union, the possibility exists of registering a trademark of the Union. Such registration grants protection to the trademark in all the Union states, and it is regulated in the framework of Council Regulation 40/94 of December 20, 1993 on the Community Trade Mark (hereinafter: 'Union regulations'; these regulations were amended comprehensively in 2004. For further details see David Kitchen, David Llewelyn, James Mellor, Richard Meade, Thomas Moody-Stuart & David Keeling, *Kerly's Law of Trade Marks and Trade Names*, [39] Chapter 6 (hereinafter: 'Kerly')). Since the relevant provisions of the 1994 Act, the Directive and the Union regulations are identical, we will discuss these three arrangements together (for convenience these three arrangements will be referred to together as - 'the arrangements').

20. The arrangements explicitly establish that in principle, a trademark may be comprised of the shape of goods or of their packaging (section 1(1) of the 1994 law, paragraph 2 of the Directive and regulation 4 of the Union regulations). The arrangements establish various limitations to the

registration of a trademark (these limitations are included in section 3 of the 1994 law, paragraph 3 of the Directive and regulation 7 of the Union regulations). We do not intend to specify all the said limitations. It is sufficient that we mention two of the limitations that relate to our discussion. First, a mark that is devoid of any distinctive character is not eligible to be registered as a trademark. Apparently, this limitation refers to an inherent distinctive character. This is because the arrangements establish that a trademark will not be denied registration in light of said limitation if it acquired a distinctive character. In other words, the requirement in the arrangements refers to an inherent distinctive character or alternatively to an acquired distinctive character. This requirement is similar to the parallel requirement which exists in the framework of the Ordinance. The European Court of Justice (hereinafter: ECJ) has dealt with the issue of examining the inherent distinctive character with regard to a three-dimensional mark that is comprised of the shape of the product or the shape of its packaging. It was established that the manner in which the inherent distinctive character of such a mark is to be examined is not different from the manner in which the inherent distinctive character of marks of other types are examined. Either way, the shape of the product to which the mark relates must be capable of creating a distinction between the product of the mark owner and the products of his competitors. The examination must consider, inter alia, the products in relation to which the mark was registered and the perception of the relevant consumer public. Despite the fact that in principle, the tests for examining the existence of an inherent distinctive character are identical, it was established that there exists, nonetheless, a significant difference in the manner of application of the tests for three-dimensional signs which are comprised of the shape of the product or the shape of its packaging. In this context it was held that as a rule, the average consumer does not usually view the shape of the product or the shape of its packaging in and of themselves as an indication of the source of the goods. Therefore, establishing an inherent distinctive character regarding marks of this type is expected to be more difficult than doing so for marks of other types. The distinctive character of a mark comprised of the shape of the product or the shape of the packaging must be closely examined. Only a shape that deviates significantly from the accepted shapes of the relevant industry can be considered to be of an inherent distinctive character. In other words, the examined shape must be so distinctive that the consumer will be expected to perceive it as symbolizing the source of the goods (C-456/01, 457/01 Henkel KGaH v. OHIM (2004), sections 34-39 [30]; see also Rogers, [38] pp. 169-171). It will be noted that the ECJ held that these rules also apply to two-dimensional marks comprised

of a graphic display of the shape of the product (C-25/05 August Storck KG v. OHIM, sections 25-29 [31]). We will further add that a fairly similar approach was expressed in a decision handed down in Japan (Friedman, [34] pp. 105-106).

21. Secondly, the arrangements include a limitation which relates directly to marks comprised of the shape of products:

'A sign shall not be registered as a trade mark if it consists exclusively of -

- (a) the shape which results from the nature of the goods themselves,
- (b) the shape of goods which is necessary to obtain a technical result, or
- (c) the shape which gives substantial value to the goods.'

(Section 3(2) of the 1994 law, paragraph 3(e) of the Directive and regulation 7(1) (e) of the Union regulations. It will be noted that the version of the introduction that appears in the Directive and the Union regulations is slightly different to the version above, but this does not affect our matter).

Unlike the former limitation, this limitation is not based on the absence of an inherent distinctive character. Instead, it is intended, *inter alia*, to prevent use of the trademark laws in order to bypass the restrictions existing in relation to the periods of monopoly in the other branches of intellectual property law. Even proving the existence of an acquired distinctive character will not overcome this limitation. In other words, once the mark falls within one of the three alternatives in this limitation, it is not eligible for registration, and the issue of the existence of an inherent or acquired distinctive character is no longer significant (see the decision of the ECJ: Philips Electronics NV v. Remington Consumer Products Ltd. [2002] All ER (EC) 634 [32] (hereinafter: 'the Phillips case')). Moreover, similar to the prior limitation, this limitation also applies to two-dimensional marks which are comprised of the graphic display of the shape of the product (Kerly, [39] pp. 204-205; for a comprehensive discussion of this limitation see *ibid*, pp. 201-212). The first alternative concerns shapes stemming from the nature of the goods themselves. In fact, the reference is to the 'natural shape of the goods.' Thus, for example, a mark comprised of the shape of a banana will be considered as stemming from the natural shape of the goods, to the extent that it is intended to apply to bananas (see Philips Electronics NV v. Remington Consumer Products Ltd. [29] at 820. The Court of Appeals in England referred this matter to the ECJ). The second alternative included in this limitation deals with a mark comprised exclusively of the shape of the product necessary to obtain a specific technical (functional) result. In light of the requirement of functionality included in this alternative, its underlying purpose seems to be prevention of the granting of a long term monopoly to a shape that by its nature might be eligible for registration as a patent. In the Phillips case, the

ECJ dealt with this alternative. It was determined that in order for a shape to be ineligible for registration as a trademark, it is sufficient that the characteristics of the shape at hand are designed and necessary for any functional purpose. This is true even if it is possible to obtain the same functional purpose by the use of alternative shapes. As mentioned above, a similar rule was established by this Court in the Kalil case (paragraph 15 supra). The primary purpose of the third alternative, which deals with shapes that can grant real value to goods, is to prevent the provision of long-term exclusivity for shapes with aesthetic characteristics that can influence the purchase of the product. From this perspective the alternative was intended, *inter alia*, to regulate a certain aspect in the reciprocity between the trademark laws and design laws. It appears that the scope of application of this alternative is not to be limited to goods with a decorative purpose. Rather, it must apply in all cases in which the shape of the product constitutes an important, if not exclusive factor in the decision of whether to purchase it (Rogers [38] p. 175).

It will be noted that despite the fact that the existing limitations in the framework of the arrangements limit the possibility of registering three-dimensional shapes of goods and their packages as trademarks, they do not create a clear distinction between trademark law and other branches of intellectual property law. On the contrary, the very possibility of acquiring a monopoly in relation to the three-dimensional shape of a product in the framework of trademark law creates a clear overlap between these laws and design laws (Rogers [38] p. 179). We will now proceed to examine the current legal situation in the United States on this topic.

22. The primary legislation in the United States regulating the protection of trademark at the federal level is the Trademark Act (known as the Lanham Act). This statute is not limited to registered trademarks; when the right conditions are met it can grant protection to unregistered marks as well. In 1992, the American Supreme Court discussed whether this Act protects a product's get-up in its broader meaning (trade dress), in cases where the mark does not have an acquired distinctive character but only an inherent distinctive character. This case involved a suit for violation of an unregistered mark, comprised of design characteristics of a Mexican restaurant. It was held that there is no reason to distinguish between protecting a mark comprised of a product's get-up, and other types of marks. Both types of marks enable the owner to distinguish his products from the products of his competitors, and thereby contribute to the protection of his goodwill. Therefore, it is sufficient that the mark comprised of the get-up of the product have an inherent distinctive character in order to be granted

protection by force of trademark law, and it is not necessary that it acquire a distinctive character in fact. This ruling is similar to the requirement that exists relative to the other types of marks, as long as the mark is not of functional value. Note that it was stated in the judgment that although this was a case of an unregistered mark, the rules that apply are similar to those applying to registered trademarks (*Two Pesos, Inc. v. Taco Cabana, Inc.*, [18]; hereinafter: 'the Taco case').

23. In the year 2000, the American Supreme Court once again addressed a similar issue in *Wal-Mart Stores, Inc. v. Samara Brothers* [19]; hereinafter: 'the Samara case'). The question there was as follows: do the trademark laws provide protection to a mark comprised of a product's design, where the mark did not acquire a distinctive character in fact? The Court reached the conclusion that the shape of a product cannot, by its nature, have an inherent distinctive character. This is because, in contrast with marks of other types, in the great majority of cases the shape of a product contains within it a functional or aesthetic value that goes beyond the traditional function of a trademark. Therefore, consumers do not tend to connect the shape of a product with its source, even where the shape in question is of a unique character and is not common in the industry. The Court further determined that the protection of the shape of products under trademark law may harm competition. This is because competitors will be denied the possibility of enjoying the functional and aesthetic advantages embodied in the shape of the products. Indeed, according to the functionality doctrine, protection is denied to marks of functional value, and in certain cases to marks of aesthetic value as well. However, even under the functionality doctrine, the very fear of legal proceedings on the part of the owner of the mark is still expected to deter competitors and thereby harm competition. Furthermore, creating a clear and logical test for the inherent distinctive character of a mark comprised of a product's shape would be extremely difficult. The Court was aware of the decision in the Taco case, which clearly held that there is nothing to prevent the trade dress of the product from having an inherent distinctive character. As stated, the Taco case refers, inter alia, to the shape of the packaging of the product. However, the Court in the Samara case distinguished that judgment in determining that the trade dress of the product, unlike its shape alone, may indeed be perceived by consumers as pointing to its source. In light of its great importance to our matter we will quote the following excerpt from the Court's reasoning in the judgment:

'In the case of product design, as in the case of color, we think consumer predisposition to equate the feature with the source does not exist. Consumers are aware of the reality that, almost invariably, even the most unusual of

product designs - such as a cocktail shaker shaped like a penguin - is intended not only to identify the source, but to render the product itself more useful or more appealing.

The fact that product design almost invariably serves purposes other than source identification not only renders inherent distinctiveness problematic; it also renders application of an inherent distinctiveness principle more harmful to other consumer interests. Consumers should not be deprived of the benefits of competition with regard to the utilitarian and aesthetic purposes that product design ordinarily serves by a rule of law that facilitates plausible threats of suit against new entrants based upon alleged inherent distinctiveness. How easy it is to mount a plausible suit depends, of course, upon the clarity of the test for inherent distinctiveness, and where product design is concerned we have little confidence that a reasonably clear test can be devised.

It is true, of course, that the person seeking to exclude new entrants would have to establish the non-functionality of the design feature... - a showing that may involve consideration of its aesthetic appeal... Competition is deterred, however, not merely by successful suit but by the plausible threat of successful suit, and given the unlikelihood of inherently source-identifying design, the game of allowing suit based upon alleged inherent distinctiveness seems to us not worth the candle.'

(The Samara case, pp. 213-214; emphasis mine - A.G.)

24. An additional judgment of the American Supreme Court which relates to our matter is *Traffix Devices, Inc. v. Marketing Displays, Inc.*, [19]. In that matter the Court considered the proper test of the functionality of a mark, against the background of prior judgments that dealt with this matter (the term functionality refers both to the importance of the mark for obtaining a certain technical result and to the aesthetic value of the mark). The importance of this issue stems from the fact that once it is established that a mark is functional, it will not be eligible to serve as a trademark and will not receive protection by force of the trademark laws. This is the case both with respect to a mark with an inherent distinctive character and to a mark with an acquired distinctive character in fact. The Court here determined that a mark may be considered functional when one of two alternatives exists: (a) the mark is necessary for the use of the product or achieving its purpose, or it can affect the cost of the product or its quality ('...essential to the use or purpose of the article or...affects the cost or quality of the article'); or where (b) exclusive use of the mark will put competitors at a real disadvantage that is not rooted in reasons related to reputation ('the exclusive use...would put

competitors at a significant non-reputation-related disadvantage'). This second alternative is relevant, generally, when the mark is of aesthetic functionality. The Court further determined that the existence of alternative shapes that achieve similar results to the ones achieved by the shape that is the subject of the mark, is not sufficient to deny the functionality of the mark. It was further held in the decision that the fact that a given mark was protected in the past under patent law is a strong indication of its functionality (this last issue arose in this Court in the *Amichai Trade* case, a proceeding that dealt with the tort of passing off, and was left open for further inquiry; as to the importance of the functionality doctrine see further *Qualitex Company v. Jacobson Products Company, Inc.* [21]). It should be noted that the American law was amended in 1998 with the addition of a provision to the effect that a mark that is functional in its entirety is not eligible for registration as a trademark. This amendment was not intended to change the existing law, but merely to be used as a statutory anchor for a rule that had been followed for some time. (15 USCS § 1052(e) (5); on this matter see further *Valu Engineering, Inc. v. Rexnord Corp.*, [22]).

25. The question of whether it is justified to recognize the possibility that the shape of a product will be protected under the laws of trademark has been widely addressed in American literature. According to some scholars, it is not appropriate to rule out, a priori, the possibility that the shape of a product serve as a trademark, even where the shape has not acquired a distinctive character in fact. These scholars argue that the doctrine of functionality constitutes a proper solution to the concern of harm to competition that might result from the application of trademark laws to the shapes of products (see for example, D.W. Opderbeck, 'An Economic Perspective on Product Configuration Trade Dress', [43]; J.J. Ferretti, 'Product Design Trade Dress Hits the Wall...Mart: Wal-Mart v. Samara Brothers', [44]). On the other hand, other scholars think that it is not justified to protect the shape of products under trademark law. According to this position, the doctrine of functionality does not provide an appropriate response to the possibility of harm to competition that would be caused as a result of the granting of a monopoly to the shape of products. This is because, inter alia, the lack of certainty with respect to the question of whether a particular mark is functional or not deters potential competitors and constitutes a barrier against access to the relevant market. The advocates of this approach claim that in a significant majority of cases, the shape of the product does have functional or aesthetic value, and that only in rare cases does the shape serve to identify its source (T.M. Barber, 'High Court Takes Right Turn in Traffix, but Stops Short of the Finish Line: An Economic Critique of Trade Dress Protection for

Product Configuration', [45]; see further Dana Beldiman, 'Protecting The Form But Not The Function: Is U.S. Ready For a New Model?' [46]). A third, intermediate approach exists, situated between the two approaches just mentioned. According to this approach, there is nothing in principle to prevent the shapes of products from being recognized as trademarks and being protected under trademark laws. However, such protection will only be afforded in rare cases. This is because in the great majority of cases the shape of the product does not serve to identify it, and therefore does not serve the purposes of trademark laws. The primary cause of the great increase in litigation related to marks comprised of the shapes of products stems, according to this approach, from the desire to be awarded a monopoly on the shape without meeting the requirements listed in the other branches of intellectual property law. Therefore, the question of whether those marks comprised of the shapes of products indeed fulfill the requirement of having a distinctive character, and whether they are not of functional or aesthetic value to the product, must be carefully examined. Only in those few cases in which the marks meet the requirements mentioned will they be protected under trademark law (M. A. Lemley, 'The Modern Lanham Act and the Death of Common Sense', [47]; for an additional approach see Lars Smith, 'Trade Distinctiveness: Solving Scalia's Tertium Quid Trade Dress Conundrum' [48]; for a general discussion of the issues mentioned, including examples, see Restatement of the Law Third - Unfair Competition, sec. 16-17 (1995)[50]).

26. Canadian law also regulates the matter of the eligibility of a three-dimensional shape of a product to serve as a trademark. According to section 2 of the Trade-marks Act, the shape of a product (as also its manner of packaging) that serves to create a distinction and separation between that product and other products, constitutes something of a 'distinguishing guise.' Section 13(1) of that statute establishes two conditions, which must be met, in order to register a 'distinguishing guise' as a trademark. The first condition is that the mark has acquired a distinctive aspect in fact as a result of the use that was made of it. In other words, the shape of the product is not eligible for registration as a trademark on the basis of its having an inherently distinctive character. In this regard, the legal landscape in Canada is similar to the rule prevailing in the United States regarding the eligibility of a mark that is comprised of the shape of a product (paragraph 23 supra). The requirement embodied in the second condition is that exclusive use of the mark by whoever is requesting registration is not expected to limit in an unreasonable manner the development of any art or industry ('not likely unreasonably to limit the development of any art or industry'). Section 13(2)

of the Act goes on to provide that the registration of a 'distinguishing guise' as a trademark does not prevent the use of any component of the product that is utilitarian ('utilitarian feature'). The purpose of this provision is to prevent the granting of a monopoly over the functional aspects included in a trademark that constitutes a 'distinguishing guise'. Section 13(3) of the Act grants the federal courts the authority to cancel the registration of a 'distinguishing guise' mark. This provision applies where the court concludes that a change has occurred that results in a registered mark limiting the development of any art or industry in an unreasonable manner. It should be noted that the Supreme Court of Canada viewed subsection 13(2) as a statutory adoption of the functionality doctrine, according to which a mark that is in its essence of a functional character is not eligible for registration as a trademark. In that same case, the question arose whether a mark which is made of the shape of the upper layer of a Lego brick may be awarded protection by force of trademark law. This issue was brought up after the patents on the Lego bricks had expired. Relying on the functionality doctrine, the Court answered this question in the negative. It ruled that the functionality doctrine is based on the principle that it is not permissible to extend monopolistic rights by means of trademark law if this would involve damage to free competition in relation to goods of the same type (Kirkbi AG v. Ritvik Holdings Inc., [23]; see also the decision of the appeals court on this matter Kirkbi AG v. Ritvik Holdings Inc.[24]; see further Thomas & Betts, Ltd. v. Panduit Corp. [25]; Remington Rand Corp. v. Philips Electronics N.V. [26]). It is interesting to note that according to the position of the Canadian registrar of patents, the limitations on the registration of a 'distinguishing guise' apply only to a mark comprised of the three-dimensional shape of a product and which relates to goods from the category to which the product belongs. On the other hand, these limitations will not apply to a mark comprised of a three-dimensional shape that is not an integral part of the shape of the product, but rather constitutes an external addition to it (Practice Notice: Three-dimensional Marks, dated 6.12.00; on this matter see paragraph 9 supra). Now that we have presented the various considerations pertaining to the matter of the registration of three-dimensional marks which are comprised of the shape of products as trademarks, and we have reviewed the law in this area in various legal systems, the time has come to make a determination as to the correct interpretation of the Ordinance on the said issue.

The three-dimensional shape of a product as a trademark -Israeli law

27. As stated above (paragraph 9 supra), the definition of the term 'mark' in section 1 of the Ordinance includes, inter alia, three-dimensional symbols and

images. In any case, the fact that a sign is three-dimensional does not, of itself, rule out the possibility of registering it as a trademark. However, we are dealing with the eligibility of the registration of a three-dimensional trademark of a certain type - one that is comprised of the shape of the product and which relates to goods of the same category as that to which the product itself belongs. The definition of the term 'trademark' is also found in section 1 of the Ordinance. According to this definition, a trademark is 'a mark which is used or is intended to be used, by a person in relation to the goods that he manufactures or trades in.' According to the respondents' claim, the fact that the language of the definition refers to a mark which is used (or is meant to be used) in relation to the goods, indicates that the goods themselves are not eligible to serve as a trademark. In other words, the definition requires, so it is claimed, that the trademark be something external to the product for which it is to be used. A similar position was expressed in the past by the House of Lords in the Coca-Cola case. As mentioned, the English law was subsequently changed (see paragraph 18 supra, and on). But it was also noted in the Registrar's circular that as a rule, a mark comprised of a three-dimensional image of the goods themselves contradicts the definition of the term 'trademark' in the Ordinance (see paragraph B of the Registrar's Circular). I cannot accept this position. I am of the view that the expression 'in relation to the goods' which is included in the definition of the term 'trademark' does not necessitate, in and of itself, the conclusion according to which the three-dimensional shape of the product is not eligible to be used as a trademark in relation to the product itself. The text of the definition is sufficiently broad to also accommodate the opposite interpretation, according to which the three-dimensional shape of the goods can be used as a mark as to the goods themselves. In order to decide between the two interpretations mentioned we must turn, therefore, to considerations which are not based on the language of the definition.

28. As stated above, the trademark's purpose is to distinguish its owner's product from the products of his competitors, and to thereby protect the goodwill of the owner of the mark. As the discussion until now has shown, the possibility that a three-dimensional shape of a product will serve as a trademark in relation to the product itself (or in relation to goods from the same category) raises significant difficulties. At the base of these difficulties lies the fact that the shape of a product often has an independent function from the function of the trademark as a distinguishing characteristic. In certain cases the shape of the product has a functional role that involves achieving a technical or engineering result, while in other cases the shape is of aesthetic significance. Two major difficulties stem from this last fact:

first, registration of a three-dimensional trademark comprised of the shape of the product grants the owners of the mark a monopoly which is unlimited in time in relation to this shape and prevents its competitors from making use of it. Thus, the functional and aesthetic advantages which are embodied in the shape of the product are denied to the competitors, and their ability to compete effectively with the owner of the mark is harmed (see in detail in paragraphs 10-11 supra). Secondly, in light of the functional and aesthetic roles fulfilled by the shape of the product, the public does not generally tend to view the shape of the product as an indication of the source of the product. This is so, even in cases where the shape of the product is of a unique character relative to other products of the same type. In other words, the ability of the shape of the product to carry an inherently distinctive character is generally called into doubt (see in detail in paragraph 12 supra).

29. I am of the view that these difficulties lead to the general conclusion that a mark that is comprised of the three-dimensional shape of a product is not eligible to be registered as a trademark on the basis of its having an inherent distinctive character. As was noted, in light of the functional and aesthetic roles that the shapes of products serve, it appears that in the ordinary case, there is substantial doubt as to whether the shape of the product can have an inherently distinctive character. Indeed, even the rules of the European Union - which in principle recognize the possibility of registering three-dimensional marks that are comprised of the shape of the product - provide that the establishment of an inherently distinctive character with regard to this type of mark will be significantly more difficult than the establishment of an inherently distinctive character with regard to marks of other types (see paragraph 20 supra). Moreover, as the American Supreme Court determined in the Samara case, it is difficult to assume that it will be possible to establish a test that will clearly identify those few cases in which the shape of the product is of an inherently distinctive character. Given the difficulty of creating a clear test in this context, the concern arises that manufacturers will claim an inherently distinctive character for the shape of a product with the purpose of bypassing the time limitations that apply in other branches of intellectual property law.

Moreover, the concern for damage to competition as a result of granting a monopoly that is unlimited in time for the shapes of products constitutes a strong consideration in support of the conclusion that the registration of three-dimensional trademarks which are comprised of the shape of a product should not be allowed. Indeed, the rule is that a mark of a functional or an aesthetic character is not eligible to be registered as a trademark according to the category of marks that have an inherently distinctive character (paragraph

15 supra). It would be possible to argue that this rule negates the concern as to damage to competition because in every case in which it is found that the shape of the product has a functional or aesthetic role, it will be turned down for registration as a trademark. However, this is not at all a simple matter. In most cases, the question of whether the product fulfills a functional or an aesthetic role is a complex one that does not yield a simple answer. Moreover, it appears that the shape of a large segment of all products is dictated, in one way or another, by aesthetic considerations. Here too, it is difficult to assume that it will be possible to develop a clear test to determine in which cases the aesthetic considerations are central enough to justify making the shape ineligible for registration. A similar difficulty, though less intense, may arise with regard to functional considerations. In the absence of a clear test, there is a concern that there will be instances in which the shapes of products will be registered as trademarks despite the fact that they fulfill a functional role or an aesthetic role. In those cases potential competitors may accept the registration of the mark, *inter alia* because of the lack of certainty in this area. In this manner the shapes of certain products will be expropriated from the public and harm to competition will ensue. When one adds to the concern for damage to competition the empirical fact that it is only in rare cases that the shape of a product will actually have an inherently distinctive character, the inevitable conclusion is that registration of a three-dimensional trademark which is comprised of the shape of the product should not be allowed under the category of marks containing an inherently distinctive character. It was these very considerations that led the American Supreme Court to a similar conclusion in the *Samara* case (see paragraph 23 supra).

30. However, the situation is quite different regarding the possibility of registering a three-dimensional mark that is comprised of the shape of the product according to the alternative category of products of an acquired distinctive character. When discussing the shape of a product of an acquired distinctive character we are referring to a shape that the consumer public associates with goods from a specific source (paragraph 8 supra). Once it is proven that the shape of the product has acquired a distinctive character, then the fact that only in rare cases will the shape of the product have an inherent distinctiveness becomes irrelevant. As mentioned above, this fact is one of the central considerations that lay at the basis of our conclusion regarding the category of products possessing an inherently distinctive character. Moreover, it would seem that interest in registering the shape of a product in relation to a trademark is greater where the party seeking registration proves that the shape is in fact used to distinguish the product and protect his

reputation (acquired distinctive character), than in the case in which he claims that the shape of the product has potential for distinction and protection as stated (inherent distinctive character). Indeed, the concern for harm to competition as a result of the difficulty in determining clear tests as to the aesthetic or functional role of the shape of the product (paragraph 29 *supra*) is also relevant for the alternative of acquired distinctive character. Despite this concern, it appears that the totality of considerations regarding this alternative leads to the conclusion that the possibility of registering three-dimensional shapes of products as trademarks on the basis of the alternative of acquired distinctive character ought to be recognized. This means that in those cases in which it is clearly proven that the shape of the product is in fact used to distinguish the product, and that the shape does not have a substantial aesthetic or functional role - the shape will be eligible for registration as a trademark.

It will be noted that when the shape of the product is in fact used as a means of identification and distinction, then it fulfills the function of a trademark. In any event, there is justification for granting it protection under trademark law. Indeed, it is possible that the shape of the product could have been granted protection in the framework of other branches of intellectual property law, such as design law (or that it has received such protection in fact). However, because the purpose of trademark law is different from the purposes of the rest of the branches of intellectual property law, this fact on its own does not constitute a sufficient reason to deny protection within the framework of trademark law. We will further add that we are aware of the fact that the rule is that the functional character of a mark prevents its registration as a trademark only according to the alternative of an inherent distinctive character, and not according to the alternative of an acquired distinctive character. We also raised the question of whether the difference that exists in this context between passing off law and trademark law is valid (paragraph 15 *supra*). Either way, at the very least, to the extent that the matter relates to three-dimensional trademarks that are comprised of the shape of the product, there is no escape from the conclusion that having a functional (or aesthetic) character rules out the eligibility of the mark for registration as a trademark, even if it is proven that it acquired a distinctive character in fact. Otherwise, the result may be the granting of a monopoly to functional (or aesthetic) shapes that is unlimited in time. This result could severely harm competition in the relevant market (see paragraph 11 *supra*).

31. The conclusion is, therefore, that the three-dimensional shape of a product is not eligible for registration on the basis of the inherent distinctive character alternative. However, it is eligible for registration on the basis of

the acquired distinctive character alternative, provided that the acquired distinctive character, as well as the absence of an aesthetic or a functional role, are proven. We emphasize that to the extent that the shape of a product fulfills a functional or aesthetic role (beyond a negligible role), then the mark will not be eligible for registration even if it acquired a distinctive character in fact. Similarly, when dealing with a very simple shape, there may be a greater tendency to determine that this basic form fulfills a functional or aesthetic role (compare, the Coffee To Go case, paragraph 23). We acknowledge that this solution is not free of difficulties. These concerns include, inter alia, the difficulty of establishing clear tests as to whether the shape of the product has a functional or aesthetic role, and the ensuing threat of harm to competition as a result of the uncertainty this entails. In order to entirely negate this concern, it would be necessary for us to determine that a product's shape is never eligible for registration as a trademark. However, we cannot ignore the contrary interest that where it is clearly proven that the shape of a product in fact fulfills the function of a trademark, it should be granted appropriate protection under trademark laws. In this context we will mention that none of the legal systems we examined have established a rule absolutely precluding the registration of product shapes as trademarks. In fact, the solution we adopted is similar to the arrangement that exists in both American law and Canadian law. We will further emphasize that our conclusion as to the eligibility of the registration of marks comprised of the three-dimensional shape of products does not prevent the protection of shapes of products under the tort of passing off. One must remember that in the framework of this tort, the plaintiff must prove that the shape of the product that he seeks to protect acquired goodwill in the sense that it is used in fact as a means of identification and distinction. However, we will reiterate that even within the tort of passing off, protection will not be afforded to the shape of a product of functional or aesthetic character (see paragraphs 15-17 supra).

32. Three comments in conclusion: first, many of the considerations which were brought above in relation to the three-dimensional shape of a product are also relevant to the three-dimensional shape of its packaging. It is also important that the tests for the registration of three-dimensional marks be user-friendly to the greatest extent possible, and avoid creating fine distinctions that are difficult to apply. Despite this concern, there are still certain differences between the two issues. It would seem that the danger of harm to competition that might result from granting a monopoly by registering a trademark is greater in the case of the shape of the product than in the case of its packaging (in this context see in the Fenecia case, paragraph

17 supra). I therefore leave for further inquiry the question of whether a three-dimensional mark comprised of the packaging of a product is eligible for registration as a trademark on the basis of the inherently distinctive character alternative. Secondly, to the extent that the Registrar's circular is not consistent with our determinations here, it is to be updated accordingly. Thirdly, we have not found it necessary to decide on the application filed by the appellants to submit supplementary evidence, as our decision will not change based on the document that is the subject of the application.

33. The outcome is that the judgment of the District Court is overturned. The proceeding is remanded to the lower Court in order to determine the matter of the validity of the appellants' mark according to the principles set out in paragraphs 29-31 supra. It is clear that if the District Court rules that the three-dimensional mark of the appellants is valid, it will then need to determine whether the actions of the respondents violate the mark. Attorneys' fees for this appeal, in the sum of 100,000 NIS, will be awarded based on the result in the District Court.

Vice-President E. Rivlin
I agree

Justice E. Rubinstein
I agree

23 March 2008
16 Adar II 5768