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## THE TRADING OF COUNTERFEIT AND KNOCK-OFFS OF INTERNATIONAL FASHION BRANDS

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### ABSTRACT

Many lawsuits are filed that pitch famous fashion brands, fashion companies and retailers against each other in courts. The cases are filed in large numbers across the globe by internationally well-renowned brands and retailers. Some of these lawsuits have widely impacted the legal landscape with significant repercussions for fashion piracy and counterfeiting worldwide. Big brands resort to measures to control the ways and mechanisms in which their products are sold. In their attempts to restrict distribution of branded goods, these fashion companies sue the retailers for copyright or trademark infringement. While these are endeavours to stop counterfeit and knock-offs by big international brands, counterfeiting continues to grow as an unstoppable peril to the global economy.

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### Introduction

Fashion industry is dominated by illegal mass copying leading to proliferation of counterfeit products and knock-off versions. A counterfeit involves copying of a brand's name or label or mark or a symbol that resembles the original. The copied product is called a counterfeit good. These are unauthorised goods sold in markets and embody great resemblances with registered brand names or logos, or marks, or labels such as 'Ritu Kumar', 'Gucci', etc. They infringe on reputed trademarks and can be confusingly deceptive to the customers. Counterfeit goods sabotage the reputation of authentic and genuine brands as they tend to closely resemble them. Several big and reputed international fashion brands have devised their own enforcement mechanisms or fashion police to protect their brands. It is feasible for these big brands to put a strong fight against counterfeiting by resorting to a variety of national and international measures. However, small fashion businesses and designers do not have sufficient financial resources so as to initiate concrete actions against the acts of counterfeiting. They are also not in well defended position to bear the losses arising from counterfeiting. A small fashion company is likely to falter with the dilution of its trademark. In contrast, knock-offs are copy of the style or design of a fashion designer without a copy of a brand name, logo or label or mark. Though trademark is not copied, a substantial part of the original design is copied leading to loss of revenue and intellectual capital of the original creator or designer. Since knock-off versions of original designs do not carry the label or logo of the designer or the fashion company, they are hardly distinguishable from the original versions. A designer who copyright the drawing or sketches of his dresses can safeguard his creations for the better. It can also be produced as strong evidence in the court of law as it puts the designer in a position of making stronger claims of 'originality'. However, dresses themselves do not constitute as 'artistic works' to be protected by copyright owing to the useful function the dress performs. All forms of dress designs perform the main function of covering the body.

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Apparels are useful and functional in nature. They seldom get copyright protection irrespective of originality claims. Patterns or other artistic components of the dress may be protected by copyright though provided that the designer is able to convince the judge of the originality of the patterns or components so applied on dress. Apparels do not get copyright protection. However, in the contemporary times, some dresses that involve highly creative work look like pieces of art. The level of creativity and originality exhibited by these creations are extraordinary. It is unreasonable not to bring such dresses within the realm of copyright law today. Traditionally, dresses and garments do not enjoy copyright protection in most of intellectual property systems and regimes worldwide. Some fake counterfeits imitate the packaging of the product itself. The imitation is generally of such magnitude that distinguishing between the genuine and counterfeit consignment becomes a Hercules task. Sometimes counterfeit products copy brand name. Copyists of fashion products and cosmetics usually duplicate the unique packaging or the trademark used on the fashion product. Prada, Gucci, etc are some of the most common fashion brands susceptible to mass copying and counterfeiting. The primary reasons for counterfeiting such brands is the consumers demand for latest trends. Fashion trends change faster and the hunger to buy new trendy fashion products at cheaper prices possibly encourage the consumers to resort to fakes, knock-offs and counterfeit versions. Big fashion companies face constant pressure to introduce and reinvent new designs. This is alleged by the fashion designer community as derogatory and theft of their creative ideas. Once a fashion line is launched, the designs may get stolen. Fake versions attract larger consumer owing to cheap prices or customer's confusion. It could eventually cause massive financial loss to haute couture designer or big fashion companies or designers who produce in mass market. Counterfeiting and knocking-off is one of the major concerns for fashion industry globally. Trademarks and copyright are the major violations in fashion industry worldwide.

### **Designers who produce in Mass Market**

An argument in favour of fashion piracy was advanced by Professor Raustalia and Sprigman.<sup>1</sup> Their main observation was that large and big fashion company's benefit from copying of their designs. These big fashion houses rely upon trademark protection. But it is difficult to perceive how this argument would apply to small designers who produce in the mass market. Even the smallest fashion or jewellery designer puts in enormous hard work, creativity, time and labour. Unfortunately, their designs are eventually copied by large fashion companies. This is a common phenomenon. Thus, piracy paradox does not apply to the fashion and accessories designers who operate in the mass market. Anchoring or induced obsolescence does not benefit small and emerging designers.<sup>2</sup>

Many initiatives have been taken to protect these small designers who may lose major chunk of their revenue to mass copying thereby destroying their career and future. Fashion Federation of India (FFI) was a big movement that started against counterfeiting in India in 2008 with the massive support of the Indian fashion community. One of the main objectives of FFI was to facilitate legal research and support in the field of Intellectual property for fashion designers. However, it could not make much progress in terms of combating counterfeiting or induce motivation towards movement for legislative or other changes. Thus, the struggle for fashion designers in India is similar to that of the Occident. So many fashion shows happen almost every week in India. None of the designers are much aware of the need to seek Intellectual property protection. The massive talent exhibited by their creations in these shows remain vulnerable to mass copying. Many famous and old markets or streets of Mumbai and

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<sup>1</sup> Kal Raustila and Christopher Sprigman, *The Piracy Paradox: Innovation and Intellectual property in fashion*, 92 VIRGINIA LAW REVIEW 1687-1777 (2006).

<sup>2</sup> *Id.*

Delhi sell the copied or counterfeit or knock-off versions of these creations at a much cheaper or affordable price. The price cut is about fifty to seventy percent compared with the original price.

In the global economy, Internet has become another new distribution channel for knock-offs and counterfeit products being sold on commercial websites. In *Chanel Inc. v What comes around goes around*, Paris-based brand Chanel sued What comes around goes around (WCAGA), a well-known retailer who had been selling second hand goods of Chanel and some fake Chanel goods.<sup>3</sup> Chanel claimed that WCAGA was wrongfully suggesting that it had some relationship with the brand Chanel, when in reality it did not. WCAGA acts included repeated use of Chanel trademarks on its social media accounts and online website. It also started to sell products such as trays, tissue box covers, mirrors using the name 'Chanel' which were not authorised by the company. These acts were meant to mislead the public into existence of some affiliation or some sort of relationship with Paris brand "Chanel" or some form of authentication to WCAGA to sell goods using its brand name and goodwill. This brought indirect publicity and automatic increase in sales for WCAGA once it utilised the brand name of Chanel for advertising itself. WCAGA, thus, was selling counterfeit products of Chanel. Besides, WCAGA was also accused of wrongfully representing some Chanel products as 'Vintage' when they were actually of recent origin. Thus, the suit is filed against WCAGA for trademark infringement, unfair competition, false advertising and violation of New York Deceptive and Unfair Trade Practices Act seeking damages and injunction to stop WCAGA from carrying out its infringing activities. The case is still pending before the court with the need for Chanel to prove that WCAGA actions induced the consumers to believe that somewhere Chanel had authorised WCAGA to carry out the sales online.

Chanel has also sued The RealReal for selling fake handbags using "Chanel" trademark through online website. This trademark infringement suit was criticised by RealReal as a move to prevent sale of authentic Chanel goods at discounted prices.<sup>4</sup> RealReal also used online platforms and retail website to sell counterfeit Chanel products forging authentic relationship with Chanel. Chanel confirmed that it had never given any approval or any sort of affiliation to RealReal to sell goods under the name of Chanel. It was subsequently discovered by Chanel that the RealReal had sold more than seven percent of counterfeit Chanel handbags which were fake. Though RealReal reiterated that it had employed experts to authenticate goods as genuine Chanel goods, however, it was a foolish argument as Chanel handbags are authenticated by its own team of experts who have the necessary expertise and training to do so. Despite RealReal non-infringement claims, Chanel accused RealReal for false advertising, unfair competition and other grounds with the demand for RealReal to permanently stop the sale of counterfeit Chanel handbags. It also demanded RealReal to call back the sale of fake Chanel bags and notify the customers that those bags were not authentic as per norms set by Chanel. Such a notice must also be put in a conspicuous place on all the merchandise which the RealReal markets, advertises and promotes. The case is yet to be decided but represents the fierce battle put up by the biggest brands of the countries against representation by retailers. It also raises question over the freedom and autonomy of these retail websites to sell second-hand and used but original branded products. The biggest question is if intellectual property laws can prevent the retail sector from re-selling authentic and genuine branded products. Many big brands might perceive it as a threat to their sales and revenue and a loss of customers who may have exercised the possibility of investing a little more finances to acquire genuine and expensive luxury products.

In *Coty Germany GmbH v Parfümerie Akzente*, the Düsseldorf Higher Regional Court blocked the retailer Kanebo, cosmetics product from making unauthorised sales in their local markets.<sup>5</sup> In *Forever 21 v Gucci*, the use of blue-red-green and green-red-green stripes by Forever 21 was the subject matter

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<sup>3</sup> Chanel, Inc. v what goes around comes around, LLC, et al. 1:18-CV-02253 (SDNY).

<sup>4</sup> Chanel, Inc. v The RealReal, Inc., 1:18-CV- 10626-VSB.

<sup>5</sup> Coty v Parfümerie Akzente GmbH (Case C-230/16).

of dispute. It was alleged by Forever 21 that Gucci had consistently threatened its company for use of similar coloured stripes alleging trademark infringement. The suit was eventually settled between the two where Forever 21 reiterated that it had not infringed any trademark of Gucci colour trademarks.<sup>6</sup> In *Puma v Forever 21*, it was alleged by PUMA that Forever 21 had illegally copied its footwear designs which was part of the Rihanna's collections. Puma alleged that it was an attempt to disparage the goodwill and brand value of Rihanna, Puma and the Fenton shoes. Three of the shoe designs were copied and sold under "Fenty" line launched by Rihanna. All the three shoes are protected by design patent (in United States), copyright and trade dress. These three Fenty models consisted of three models: the Bow slide, the Fur slide and Creeper. Puma versions were sold through retail at a price of about \$80 or \$100 while the Forever 21 stores have made to Puma. It sought ban and injunction for restraining Forever 21 outlets for selling similar three models of footwear. The court did not grant the injunction or the damages and the case is still pending for final decision.<sup>7</sup> There have also been several other fierce legal battles especially in the footwear industry of the United States. One of the biggest witnessed battle is *Converse v Skechers*.<sup>8</sup> Converse went on to sue biggest shoe giants based on designs elements alleged to have been owned by Converse and used illegally by other footwear companies. Converse introduced authentic shoe and created "non-skid" sneaker which absorbed more than seventy percent of market share of basketball shoe market in the 1960s. The "non-skid" sneakers design elements remain unchanged. It still had rubber cap, All-star patch, slim lace-up body and vulcanised rubber sole which attracted consumers from all walks of life and age groups. The sneakers enjoyed massive popularity amongst sportsmen, athletes, teenagers, etc. These shoe became so popular that they were coveted amongst American celebrities and posterity. In 2014, Converse went through business upheaval and was about to break financially. Amid filing of bankruptcy, Converse was luckily rescued with the help of Nike with its chuck style shoe generating massive sales and revenue. It was estimated that it generated the revenue of about \$2 billion in the year 2014. Supported and backed by Nike, Converse focused on its domestic and international growth. The company discovered that it was one of the biggest target of copy of its Chuck Taylor shoe design. Converse discovered 31 big brand companies and its retailers copying the design of its shoe. It proceeded to file 22 trademark infringement lawsuits against major brands of international repute, namely, Ralph Lauren, H&M, Walmart, Aldo, etc. on allegations of mass copying of 106 years old famous Chuck Taylor shoes. Converse case was heard in the Federal Court in New York City where it alleged that more than twenty four companies were mass producing and selling the knock-off versions that had everything from toe caps to toe bumpers and stupid midsoles akin to the genuine Converse product. Converse demanded hefty damages and injunctive relief. It also lodged complaint with International Trade Commission (ITC) to stop the entry of infringing footwear to the territories of United States. Most of the 22 lawsuits led to out of court settlement. Many of these defendants paid the settlement claims and promised not to infringe Converse Chuck Taylor's shoe in future. However, Skechers did not yield to the international pressure and Converse demands. Eventually, ITC did invalidate Converse trade dress registrations but prohibited import of any shoe that infringes any trademark of the company. The company largely relied upon its "midsole" mark that was found to have not been infringed by Skechers. There were close resemblances and possible infringement but Converse had registered the mark only after Skechers had begun to sell infringing copies of the footwear. Converse had been using the "midsole" mark since 1932 but received federal registration only in 2013. The "midsole" mark was legally registered with United States Patents and Trademark Office (USPTO). However, ITC did not succumb to Converse claims on the basis of non-establishment of secondary meaning of Converse designs when Skechers Twinkle toes and BOBS Utopia shoe styles appealed to U.S. Court of Appeals

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<sup>6</sup> *Forever 21, Inc. v. Gucci America, Inc., et al.*, 2:17-cv-04706 (C.D.Cal).

<sup>7</sup> *PUMA SE v Forever 21, Inc.* (Case 2:17-CV-02523).

<sup>8</sup> The case is still pending for final decision.

for the Federal Circuit, which invalidated the ITC erroneous findings and application of wrong standards for determination of Converse trade dress and infringement actions. The two questions, became relevant in this case-

1. Whether Converse sneakers had acquired secondary meaning on the date of alleged infringement by Skechers?
2. Whether Converse's trade dress is substantially similar to Skechers alleged infringing sneakers?

With reference to these questions, the court found that Skechers Daddy's Money shoes infringed Converse "midsole" mark. However, Skechers Hydee Hytop, Bob's Utopia or Twinkle Toes shoes were not held to infringe Converse's trade dress. The court found substantial similarity between the Skechers Daddy Money Shoes and Converse's "midsole" mark that was previously determined to be invalid and unenforceable. Today, both the ITC proceedings and the civil suit is pending for final decision. Thus, Converse had put up a strong fight for its claims on design elements which it considers itself as rightful owner. Skechers has also defended its position in a rigorous manner. When it comes to United States footwear industry, many fierce battles prevail amongst bigger brands and international players. This is just one of the famous lawsuits pending in the court at present.

In *Cartier International AG v Gaurav Bhatia*, the defendants sold counterfeit fashion and lifestyle products through its website called [www.luxecart.com](http://www.luxecart.com), [www.watchcartz.com](http://www.watchcartz.com) and [www.digaaz.com](http://www.digaaz.com). Defendants sold counterfeit versions of the plaintiff's products simultaneously guaranteeing that the products sold by them were genuine and hundred percent authentic. The defendants never appeared before the court. They also refrained from accounting for false profits. The Delhi High Court held the defendants liable of using plaintiff's trademarks illegally. The plaintiff company Cartier was able to recover damages of about ₹10 million for passing off and trademark infringement by the defendant. The court permanently barred the defendant from using the plaintiff's trademarks.<sup>9</sup> In *Luxottica Group SPA v Craftsvilla Handicrafts Pvt. Ltd.*, the plaintiff's trademark was used by the defendants to sell and market counterfeit sunglasses on their websites named [www.craftsvilla.com](http://www.craftsvilla.com), [www.99labels.com](http://www.99labels.com), [www.ioffer.com](http://www.ioffer.com) and [www.stylemyway.com](http://www.stylemyway.com). The Delhi High court granted interim injunction restraining the defendant from sale of unauthorised products. Counterfeit products negatively impacts the economy, consumers and brand owners. It damages the reputation of the brand in the minds of the consumers who may mistake a fake product as a genuine one and get dilapidated later over the quality of the product. It becomes incumbent for the governments to introduce necessary amendments in intellectual property laws, procedures, rules and practices to encourage and boost fair practices. The business of counterfeits especially for clothes is massive in India mainly due to the middle class demand for big branded clothes and apparel at deepest possible price. Palika Bazaar, for instance, is popular for sale of cheap and counterfeit copies of famous brands such as Nike or Adidas. It is a thriving with copies of western apparels and brands selling women's clothing that are copies of many designs of famous brands. Bazaar happens to be the biggest counterfeit market for fashion products in Delhi. Most of these consumers of counterfeit products succumb to the changing nature of fashion trends as a major motivating factor to buy counterfeit goods. Since fashion lasts for a short time, many consumers do not feel the need to make a huge investment. However, the cheap pricing continues to be the dominating factor for consumers to resort to counterfeit purchase. The growing retail segment in India, raises crucial questions on perilous proliferation of counterfeits and Indian IP policy framework. Counterfeiting is a highly despicable and a predatory activity. Imitation of jewellery, clothing and fashion accessories for selling them at lower rates or prices causes patent or trademark infringement. In Indian metros, counterfeits are produced in the same factory where the original and authentic products are produced and manufactured. Nearly seventy percent of the counterfeit items originate

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<sup>9</sup> *Cartier International AG v Gaurav Bhatia* 2016 (65) PTC 768 Del.

from Delhi. Clothing, shoes, watches, jewellery and leather goods are the most counterfeit markets consisting of pirated versions of goods of famous brands such as Cartier, Louis Vuitton, Tiffany, Prada, Gucci, Chanel, Hermes, Yves St Laurent and Christian Dior. Counterfeit markets exist because there is a demand for it. Businessmen and students demand the major chunk of these pirated goods. Counterfeiting has become a major global problem. Enforcement of IP policies against counterfeiting is not strong enough in India making it difficult for the brand industry to thrive successfully.

Thus, it is important to safeguard the intellectual capital of the fashion industry worldwide. Some of the legal interventions include strong IP policies to disallow the counterfeiters to profit from deceptive practices.

### **Copyright for branded fashion works**

Copyright is granted to fashion items immediately upon creation in most of the parts of the world. There is automatic conferment. Registration of copyright is more advantageous as it becomes a conclusive evidence in the event of a lawsuit. Copyright protects the original creation of the author or the rightful owner. In context of fashion, copyright as an intellectual property right protects a tangible medium of expression. Any fashion items such as a stylish dress cannot get copyright protection as it also performs the function of covering the body. Functional elements of a creation are protected only by patents. Also, three-dimensional works cannot be protected by copyright. In the United States, there is a doctrine of conceptual separability which states that if an article is “useful”, it is not copyrightable. However, if a useful component of a work is capable of being separated from the non-useful component, then the non-useful component will get copyright protection.

### **Trademarks for fashion**

This type of protection is frequently resorted to by the fashion brand owners, companies and haute couture designers. Trademark protection is available both at the national and international level. In the fashion world today, trademarks are coveted largely for protecting a clothing line in addition to colour on fashion products, for instance, Louboutin’s red sole mark for its high heels. Trademarks for fragrances and perfumes, if distinctive is protectable upon establishing graphical representation. However, perfumes marks are difficult to obtain and enjoys acceptance only in fewer jurisdictions. This is because olfactory memory is the most uncommon way of consumer linking with a brand. There has not been any registration of smell trademarks in India so far. Moreover, any distinctive type of product design or packaging of a fashion product is protected as a trade dress.

### **Patents for fashion**

Patents are not used in large number by Indian fashion industry and applies to highly innovative designs or fashion creations such as wearable technology. Large number of patent applications for fashion is filed with USPTO. Patents extend protection for 14 years or longer. United States also recognise Design Patents which are instrumental in protecting designs from the fashion industry. Design patents are very popular amongst elite luxury brands for their definite pieces but not for designs that lasts only for a shorter duration.

### **Conclusion**

The foremost step to prevent counterfeit products of a fashion brand is to ensure timely registration of intellectual property rights such as copyright, patents, trademarks on the basis of which alone a concrete action against counterfeits can be taken. Counterfeits are harmful and can tarnish a brand’s image. Internet is a common medium to sell counterfeit products today. Counterfeit apparels, watches, shoes are all found on Internet. Big fashion brands are doing whatever it takes to initiate action for trademark infringement or unfair competition amongst other alternatives. However, Internet is too big. In United States, a software called MarkMonitor’s auction Monitoring is used to detect counterfeit

products online and stop unauthorised sales. Not much success has been achieved so far to stop counterfeiting globally. Buyers are really into buying fake counterfeit and knock off fashion products even when they are of a lesser quality. Most of the revenue generated from the sale of counterfeit products is used to fund illegal activities such as child labour, terrorism, illegal drug trafficking, etc, and worldwide.

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