

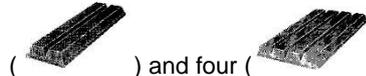
## CASE UPDATE

5 December 2014

# BREAKING CHOCOLATE NEWS: SHAPING THE LAW ON REGISTRABILITY OF TRADE MARKS

### INTRODUCTION

The Singapore High Court has declared Nestle's trade mark registrations for the shape of its two



( ) and four ( ) finger Kit Kat bars ("**Registered Shapes**") to be invalid, and has ordered that the registrations be removed from the Trade Marks Register.

### RELEVANT LEGISLATION

The following statutory provisions were considered by the Singapore High Court:

- (a) Trade Mark Infringement: Sections 27(1) and 27(2)(b) of the Trade Marks Act ("**TMA**"),
- (b) Trade Mark Invalidation: Sections 7(1)(a), 7(1)(b), 7(3)(a), 7(3)(b), 7(3)(c) of the TMA,
- (c) Trade Mark Revocation: Sections 22(1)(a) and/or 22(1)(b) of the TMA
- (d) Trade Mark Groundless Threats of Infringement: Section 35(2) of the TMA,
- (e) Well-Known Trade Marks: Sections 55(2), 55(3)(a), 55(3)(b) of the TMA,
- (f) Copyright Infringement: Sections 32 and/or 33 of the Copyright Act ("**CA**"), and
- (g) Copyright Defences: Sections 40A, 70, 74 of the CA.

### BACKGROUND

The Kit Kat products are moulded chocolate wafer confectioneries which can be broken into individual 'fingers'. The four fingers Kit Kat product was originally launched as Rowntrees Chocolate Crisp in 1935, and rebranded as Kit Kat in 1937. The two fingers version was launched in 1963.

In December 2012, Nestle and its local subsidiary (collectively, "**Plaintiffs**") commenced legal proceedings ("**Suit**") against Petra Foods Limited and its subsidiary Delfi Singapore Pte Ltd (collectively, "**Defendants**"). The claims in the Suit were directed at the Defendants' "Take-It" moulded chocolate wafer confectionery, which are manufactured and sold in 2 finger and 4 finger versions. It was alleged by the Plaintiffs that the shape and packaging of the Defendants' Take-It products infringed their intellectual property rights, in particular, the Registered Shapes.

The Defendants denied all of the Plaintiffs' claims, and counterclaimed for: (1) the invalidation and/or revocation of the Registered Shapes; and (2) groundless threats of trade mark infringement.

Nestle is, and has been, engaged in a number of disputes worldwide concerning the shape of its two and/or four finger Kit Kat bars.

### THE DECISION

#### Trade mark invalidation

##### *The technical result exception*

One of the key issues before the High Court was whether the Registered Shapes should be declared invalid. If so, all of Nestle's claims in respect of registered trade mark infringement would necessarily fail.

The main thrust of the Defendants' counterattack was section 7(3)(b) of the TMA. This section prohibits the registration of signs which consist exclusively of the shape of goods which is necessary to obtain a technical result ("**Technical Result Exception**").

Following the High Court's decision, it is clear that the following legal propositions are applicable in

assessing whether a shape contravenes the Technical Result Exception.

- (a) One, the underlying public interest for the Technical Result Exception is to prevent trade mark law granting a particular trader a monopoly (which can potentially last forever) on technical solutions or functional characteristics of a product. Technical solutions are capable of protection under the law for only a limited period (possibly under a patent or design registration), so that they may subsequently be freely used by all economic operators.
- (b) Two, no amount of acquired distinctiveness (through use of the sign) can cure a trade mark which falls foul of the Technical Result Exception.
- (c) Three, a sign cannot be refused registration as a trade mark if the shape of the goods at issue incorporates a major non-functional element, such as a decorative or imaginative element which plays an important role in the shape.
- (d) Four, a shape may still be considered necessary to obtain the technical result *even if* the same technical result may be achieved by various solutions, such as alternative shapes. The reason is that a trade mark may allow its proprietor from using not only the same shape, but also other similar shapes. This is especially where the solution incorporated in the shape in question is the technically preferable solution.
- (e) Five, in assessing whether a shape offends the Technical Result Exception, a court must identify the essential characteristics of the shape. The term “essential characteristics” refers to the most important elements of the sign, which are identified by the court on a case-by-case basis. The assessment may be based either directly on the overall impression produced by the sign, or each of the components of the sign concerned. After the essential characteristics are identified, the court must determine whether they *all* perform

the technical function of the goods at issue. Although the presumed perception of the average consumer is not *decisive*, it is relevant in identifying the essential characteristics. The weight accorded to the average consumer’s presumed perception will depend on the facts. Where the sign relates to common consumer goods (*eg* electric shavers or chocolate), it is appropriate to give due weight to the impact of the sign on the eye of the average consumer. The analysis must be of the sign in question (that the trader is seeking trade mark registration for), and *not* of other signs consisting of other shapes of goods.

- (f) Six, the test of whether a shape falls foul of the Technical Result Exception is an objective one. Although the subjective intentions of the designer of that shape may be relevant, it is not determinative.
- (g) Seven, the Technical Result Exception applies to exclude shapes which are necessary to obtain a technical result with regard to the manner in which the goods are manufactured (*ie* the manufacturing process), *as well as* shapes which have a useful functional feature in the goods from the standpoint of the end user of the product (*ie* how the goods themselves function).

Applying these principles, the Court found the essential characteristics of the Registered Shapes to be as follows: (a) the rectangular slab shape of the Registered Shapes as they appear on the form of the registration, including the relative proportions of length, width and depth; (b) the presence, position and depth of the breaking grooves arranged along the length of the bar, which effectively divide the bar into detachable fingers; and (c) the number of such breaking grooves which, together with the width of the bar, determine the number of fingers. Although Nestle argued that the ‘plinth’ or ‘base’ of the Registered Shapes constituted an essential feature, the Court did not agree. The Judge found that the average consumer of chocolate confectionery would not have paid it any notice.

Next, the Court considered the issue of whether *all* of the essential characteristics of the Registered

Shapes are functional. The Defendants’ case, supported by expert evidence, on each of the three essential characteristics was as follows.

- (a) First Essential Feature: the rectangular slab shape of the Registered Shapes is necessary to create a shape that can be manufactured and packed at the speed required for commercial production.
- (b) Second Essential Feature: although the manufacturer can choose where and how to run the grooves in the product, the presence of breaking grooves is fundamentally necessary to allow the product to be broken down for consumption, and the angle of those grooves would be dictated by the position and depth of these grooves (release angles of some kind will be required to allow the product to be efficiently removed from the mould).
- (c) Third Essential Feature: the number of breaking grooves and fingers is necessary to achieve the technical result of providing the customer with a desired portion size.

The Judge agreed, and found that on the evidence, each and every one of the essential characteristics of the Registered Shapes was necessary to achieve a technical result. Accordingly, the Registered Shapes were found to be invalid in that they each offended the Technical Result Exception under section 7(3)(b) of the TMA.

***Nature of goods and/or substantial value***

Apart from contending that the Registered Shapes offended the Technical Result Exception, the Defendants also argued that each of the Registered Shapes consisted exclusively of a shape which results from the nature of the goods themselves under section 7(3)(a) of the TMA (“**Nature Exception**”); and/or consisted exclusively of a shape which gives substantial value to the goods under section 7(3)(c) of the TMA (“**Substantial Value Exception**”).

However, the Court did not accept these arguments.

On the Nature Exception, it was found that chocolate coated bars or wafers could conceivably take any shape, subject to manufacturing restraints. As such, while the Registered Shapes were relatively basic and simple, the Court was not prepared to say that they result from the nature of these chocolate coated products.

As for the Substantial Value Exception, the Judge found that the evidence as to the aesthetic appeal of the Registered Shapes was lacking. The Judge did not think that the evidence showed the Registered Shapes to be particularly eye catching in relation to other competing products in the market as of the date of registration (3 January 2000) to have given the shapes substantial value over the others on account of their aesthetic design.

***Hybrid approach doubted***

One of the Defendants’ alternative arguments was that a hybrid approach should be taken towards section 7(3) of the TMA. The question in this regard is whether the three exceptions (*ie* Technical Result Exception, Nature Exception and Substantial Value Exception) may be applied in combination, or whether they must be applied independently of the others.

The question of cumulative or independent application arises in the following way: should a sign be refused registration as a shape mark if it has three essential features, two of which offend the Technical Result Exception, and the last offends the Nature Exception?

Although the Court did not need to decide the point, the Judge observed that the way the statutory provision is drafted appeared to rule out the cumulative application of the three grounds. Instead, each of the three grounds should be given a wide and purposive interpretation. That way, it would not be unduly restrictive to apply them separately from each other.

***No inherent distinctiveness***

The Defendants also submitted that the Registered Shapes were registered in breach of sections 7(1)(a) and/or 7(1)(b) of the TMA. The former precludes the registration of signs which do not satisfy the definition of a trade mark under section 2(1) of the TMA. The latter prohibits the

registration of marks which are devoid of any district character.

The Court found that while the Registered Shapes were *capable* of distinguishing the goods for which they had been registered under section 7(1)(a) of the TMA, the Registered Shapes were *inherently* devoid of any distinctive character under section 7(1)(b) of the TMA. The registrations were found to not have any intrinsic or inherent features or characteristics that are sufficiently unique to enable the intended marks to immediately function as a readily obvious and reliable *badge of origin* in the eyes of the average discerning consumer. The following principles can be gleaned from the decision.

- (a) For a mark to have distinctive character, it must serve to identify the product in respect of which registration is applied for as originating from a particular trader, and thus distinguish that product from products of other traders.
- (b) The mark's distinctiveness mark must be assessed by reference to the goods or services for which registration is sought, and the perception of the relevant consumers of the goods or services in question (who are presumed to be reasonably well informed, observant and circumspect).
- (c) When assessing the distinctiveness of a three-dimensional shape of a product mark, the criteria used is the same (and no stricter) than that used for other categories of trade marks.
- (d) However, in practice, it may be more difficult for a three-dimensional mark to pass the test. The reason is that average consumers are not in the habit of making assumptions of the origin of products simply on the basis of their shape alone (in the absence of any graphic or word element).
- (e) Only a trade mark which departs significantly from the norm or customs of the sector is not devoid of any distinctive character. Just because a shape is unusual, fanciful, or attractive does not mean that the public will automatically

take it as denoting trade origin (and hence registrable as a trade mark). What must be shown is that the average consumer would regard the shape *alone* as a badge of origin.

### **No acquired distinctiveness**

Under section 23(2) of the TMA, a non-distinctive mark may be saved from a declaration of invalidity if, because of the use made of it after registration, it has acquired a distinctive character in relation to the goods for which it is registered.

The decision makes it clear that it is *not sufficient* to show that the average consumer associates the shape of the goods with a particular manufacturer. The test is this. It must be established that a significant proportion of the relevant class of persons rely upon the trade mark (as opposed to any other trade marks which may also be present) as *indicating the origin* of goods. While it is not essential for the trader to have explicitly promoted the sign in question as a trade mark, what the trader must show is that he has used the sign in such a way that consumers have in fact come to rely on it as indicating the origin of the goods.

As the Plaintiffs were not able to prove, on the evidence, that average consumers relied on the Registered Shapes alone as indicators of origin (as opposed to, say, the word mark KIT KAT), the registrations were not saved by the section 23(2) acquired distinctiveness proviso.

Thus, the Defendants' counterclaim for invalidity also succeeded on the section 7(1)(b) ground.

### **Trade mark revocation**

The Defendants also argued that the Registered Shapes should be revoked for non-use under section 22(1)(a) and/or 22(1)(b) of the TMA on grounds that the registrations were not put to genuine use in the course of trade in Singapore as *trade marks* (ie indicators of origin).

In response, the Plaintiffs countered by arguing that where the shape mark is the shape of goods, the commercial exploitation of the goods themselves is use of the shape mark.

The Plaintiffs' argument was not accepted. The Court found that the Kit Kat products were sold in

opaque wrappers, which meant that the actual shapes had no trade mark significance at the point of sale. As for the portrayal of the Registered Shapes on the packaging (which were in a highly modified form), that was merely to illustrate the products within. That was descriptive use. It is commonplace for traders in chocolate confectionery to show in pictorial format what the goods look like, both on packaging in their advertising materials. Even in advertising and promotion, the Registered Shapes were never used alone. Even when the Kit Kat products were unwrapped for consumption, the word KIT KAT featured prominently. As such, the Defendants also succeeded on this ground.

Since the Defendants’ counterclaim for invalidity and revocation was successful, all of the Plaintiffs’ claims in registered trade mark infringement failed.

### Well known trade marks

It was argued by the Plaintiffs that even if a trade mark is prohibited from registration under Section 7 TMA, it may nonetheless be protected as a well known *unregistered* trade mark. The Defendants countered by arguing that Parliament could not have intended for *unregistrable* (as opposed to merely *unregistered*) trade marks to be protected, simply because they are well known.

The Court agreed with the Defendants’ submissions, and ruled that the words “*unregistered trade mark*” as used in the definition of a “*well known trade mark*” in the TMA must by necessary implication exclude trade marks that Parliament has deemed to be unregistrable under section 7 of the TMA.

The Plaintiffs also asserted rights in the following unregistered mark against the Defendants:



(“Two Fingers Composite Mark”).

It was argued by the Plaintiffs that the Two Fingers Composite Mark was also a well known trade mark in Singapore. The Court disagreed and found that the average consumer would not rely on the Two Fingers Composite Mark as indicating the origin of goods (i.e. serve as a badge of origin). Accordingly, the question of whether it is well

known (as a trade mark) did not arise. Thus, the Plaintiffs’ claim on this ground failed as well.

### Copyright infringement

The Plaintiffs alleged copyright infringement of the following Artistic Work:



However, the Plaintiffs were unable to prove on the evidence that the 1<sup>st</sup> Plaintiff owned the Artistic Work (which was their pleaded case). As such, their claim against the Defendants failed.

### COMMENTS

All told, this decision is a highly significant one: it is the first High Court decision on the registrability of shapes as trade marks in Singapore. Traders seeking to register or assert trade mark protection over the shape of their goods should take careful heed of the guiding principles laid down by the High Court summarised above.

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