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LEGAL AND PRIVACY

Subscription perfume services are a hot new thing. But are they legal?

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The subscription beauty marketplace is a hot trendy area, and companies have built big businesses around this concept. Part of the subscription business is directed to younger consumers who want to wear luxury fragrances, but do not want to commit to a single scent.

So online subscription services have sprung up to fill the niche. For a modest monthly fee usually around $15 to $20 they send the customer a box with one or a few small bottles of different scents chosen by the customer. As one fashion magazine put it, "It's like Netflix for perfume!"

These companies offer a choice of hundreds of luxury and fashion brands, from Chanel to Gucci, from Este Lauder to Paco Rabanne. Some of these companies purchase large quantities of brand-name perfumes and colognes, rebottle them in their own bottles and mist-sprayers, reference the brand name, and ship them off to customers.

But is this legal? Can a rebottler use a famous brand name protected by trademark law to identify the product inside, the perfume, even though it has rebottled it?

Supreme Court ruling

The practice of rebottling fragrance is not new almost 100 years ago, the U.S. Supreme Court considered such a scenario in a case entitled *Prestonettes, Inc. v. Coty* (1924).

Coty, a French national, owned the trademarks COTY for face powder and L'ORIGAN for perfume. Prestonettes, a New York company, purchased Coty face powder, subjected it to pressure, added a binder and filled the resulting cake into metal cases. It sold these to the public under its own name, but the label also referenced the COTY name as the source of the powder.

Prestonettes also purchased L'Origan perfume in large bottles, rebottled it in smaller bottles, and sold it to the public. Again, the label bore its own trademark, but referenced Coty as the source of the original now rebottled perfume.

The Supreme Court held that this was *not* trademark infringement provided that there was clear disclosure to the

consumer of what was happening, meaning that the powder and perfume originated with the French manufacturer, and had been repackaged by Prestonettes.

The Supreme Court made clear that the function of a trademark right is limited. A trademark "does not confer a right to prohibit the use of the word or words. It is not a copyright."

Thus, "a trademark only gives the right to prohibit the use of it so far as to protect the owner's goodwill against the sale of another's product as his.

When the mark is used in a way that does not deceive the public, we see no such sanctity in the word as to prevent its being used to tell the truth. It is not taboo."

These Supreme Court words have since been quoted in hundreds of trademark cases, and they are bedrock concepts informing all of trademark law.

A trademark is a right to use a symbol to designate a business and its goods or services. Uses of a mark that confuse and deceive are illegal. Uses that do not confuse or deceive are not. This has important ramifications for many marketing practices, such as comparative advertising, advertising brand-specific after-market services and offering component parts that fit branded-products.

Coty argued that its trademark rights should prohibit rebottling for two reasons.

First it argued that there was a real possibility of fraud, meaning using perfume from someone else and then mislabeling it as "Coty" perfume. But the Supreme Court rejected that argument because there was no proof that a different perfume had ever been substituted.

Coty also argued that even if genuine COTY perfume was used in the rebottling, it could easily deteriorate in the process, and the poor quality would be blamed on Coty.

But the Supreme Court rejected that argument, reasoning that if the perfume did deteriorate, the consumer would blame Prestonettes as the rebottler, because the courts had required it to make clear disclosure of the rebottling.

One can question whether this conclusion is empirically true who would the consumer blame if the perfume turned out to have quality problems, the original manufacturer or the rebottler?

Disclosure requirements

So, while the Supreme Court decision did allow rebottling, it did so with strict requirements of consumer disclosure. Courts have distilled four labelling requirements in such situations:

- That the trademarked product has been repackaged or rebottled.
- That the rebottler/repacker is a separate company not associated with or sponsored by the trademark owner.
- The name of the rebottler/repacker.
- That the trademark not be more prominent or overemphasized as compared to the rebottler's trademark meaning not in larger font or different color, for example.

These rules apply not only to the product labelling, but also to related advertising.

And while no case has yet applied these requirements in the context of the internet, these disclosure requirements are particularly applicable in the internet context.

In traditional advertising, the product is promoted, and then the consumer makes a purchase at a separate time and place, such as a store or boutique.

But on the internet, the advertising and the point-of-sale typically occur at the same place and time. Since websites are the point of sale, that is the point that the law would require these disclosures.

Quality-control exception

While the *Prestonettes* rule is still generally followed, since then lower courts have developed one important exception: where the repackaging has the potential to negatively affect quality control.

Quality control is an important aspect of trademark rights the right to control the quality of goods sold under the trademark owner's mark is a key aspect of the trademark right.

Indeed, until a product passes the trademark owner's quality control regime, it is not genuine, and its sale infringes

the trademark.

And, courts emphasize that it is *control* of quality, not actual quality, that is important.

For example, a contract manufacturer whose product has not passed the trademark owner's quality control may not sell the goods under that trademark, even if the goods happen to be of the same, usual quality.

Sometimes, a change of packaging affects quality control as well. This comes up not infrequently in medical and medically related products, where the packaging may include safety seals, FDA-required disclosures, and instructions for safe use, all of which are important adjuncts to the product itself.

Repackaging that omits these affects the overall quality of the "product" offered to the consumer.

This principle has also been applied in perfume cases.

A 2009 case pitted Swiss luxury brand Zino Davidoff against the retail pharmacy chain CVS.

The drugstore chain had been selling secondary market perfume, which had Davidoff's serial batch codes removed from the boxes and/or ground off the bottles. Secondary market sellers often do this to frustrate the trademark owner tracing the source of the goods.

Davidoff argued that this interfered with its quality control efforts, because the codes (a) were used to detect counterfeits in the market; (b) were used to fix quality problems, since when a problem arose, they could trace it to a particular factory and batch; and (c) the codes could be used to conduct a recall, if needed.

A federal court of appeals agreed with Davidoff. The removal of the codes interfered with Davidoff's quality control efforts, and rendered the bottles not genuine (indeed counterfeit).

So it affirmed an injunction against selling bottles with obliterated codes. One caveat that it noted is that the trademark owner's use of codes was not a pretext, Davidoff had genuinely been using the codes as part of its quality control efforts.

Although no rebottling case has raised this quality control issue yet, this principle could well apply to such a rebottling situation.

If a brand uses batch or serial codes as Davidoff does, then arguably the rebottler needs to include that on the bottle or accompanying packaging when it distributes that to its customers.

New York law bans rebottling

Trademark cases are almost always litigated in federal courts, since it is governed by the federal Trademark Act of 1946, and federal courts continue to follow *Presonettes*.

However, New York State has a statute that facially bars use of an original trademark on a rebottled or repackaged product.

And, in 1961, in a case involving rebottling of French perfumes entitled *Lanvin Parfums, Inc. v. Le Dans, Ltd.,* New York's highest court ruled that the law indeed bars use of the original trademark on a rebottled product. It specifically rejected the reasoning of *Presonettes*, holding that the New York law protected the trademark owner from use of its mark.

Since then, however, this New York law has rarely been litigated. One reason probably may be that a number of courts have held that they will not issue an injunction absent fraudulent intent to deceive on the part of the rebottler, meaning that rebottlers who make proper disclosures, as required by *Presonettes,* will generally not be held to have acted in a deceptive manner.

So, as a practical matter, the New York law may be a dead letter.

Other states have rejected the New York law when applying their own laws, including one New Jersey court opinion, that adhered to the *Prestonettes* rule.

Furthermore, if the New York rule were to be enforced today, it would likely face serious Constitutional challenge.

In 1961, it was not generally believed that commercial speech was protected by the First Amendment. Several Supreme Court cases since then, however, have generally established that commercial speech *is* protected, so long as it is not deceptive and does not offer illegal products.

While commercial speech is subject to regulation in ways that other speech cannot, there is a basic presumption that

commercial speech which is truthful and not confusing or deceptive is protected by the First Amendment.

A rebottler who strictly complies with the disclosure requirements under *Prestonettes* could argue that it is engaged in truthful speech "our bottles contain Brand X perfume" and that would be protected.

Authorized rebottling

Some perfume subscription services assert that they partner with the manufacturers to provide the perfumes in convenient small quantities.

This type of co-branding arrangement which would involve the service's mark being used together with the manufacturer's would generally involve a contract that includes some kind of license for use of the brand's trademark.

This raises an important issue about trademark licensing. A trademark signifies the reputation and goodwill of a company. Trademark law, unlike patent and copyright law, has special requirements for licensing. A trademark owner may license use of its mark but has to make efforts to ensure that the mark is being used to deliver quality goods or services.

So a trademark license must contain terms that provide for some quality control or check by the trademark owner over the product being sold under its mark. A license without quality control terms is called a "naked license" in trademark law, and may be a basis for complete loss of trademark rights.

So an agreement between a perfume bottler and a perfume subscription service would have to include some terms that grant the manufacturer the right to ensure that its product's quality is not being negatively affected by the rebottling.

Summary

U.S. trademark law allows use of another's trademark that is not deceptive or misleading. This generally permits a company to rebottle or repackage another's product and reference the original trademark, so long as it makes clear disclosure that it has rebottled the product and it has no connection to the original brand.

Where additional information such as codes or related manufacturer content are important to the quality of the product, then that may also need to be included by the rebottler in the packaging.

Where there is an agreement between the original manufacturer and the rebottler/repackager to allow use of the manufacturer's trademark, such an agreement must include terms granting the manufacturer the right to ensure the quality of the repackaged product sold under its own trademark.

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