

## Portuguese Court ruling over unfair competition of *low-cost* fragrances

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Last February, the Lisbon Court of Appeal considered that the selling for a much lower price<sup>1</sup> of perfumes with similar scents to well-known and prestigious trademarks by establishing comparison lists and invoking resemblances represents a form of unfair competition.

The process started with a claim presented by well-known and prestigious trademarks against a franchising network of companies, who sold perfumes with very similar scents but at a much lower price and by comparing them with the first ones. The Claimants aimed that the latter were condemned to abstain from making any reference to their products and to the award of compensation.

In a nutshell, the Claimants claimed that the business model of the Defendants was developed at the expense of their registered trademarks, which were used in stores and websites to compare both parties' perfumes, and reproduced, without any consent, on cards to test the scents at the Defendant's stores. The Claimants also argued that their commercialization strategy was based on a selective distribution system, with selling agents chosen carefully through strict criteria, big investments in product development and marketing campaigns and that the Defendants were unlawfully profiting from this. In the light of this, the Claimants concluded that Defendants were infringing the exclusive rights conferred by the registered trademarks, offending the comparative advertising laws and practicing unfair competition. The Defendants denied the accusations and after analyzing all the facts the Court of First Instance dismissed the claim.

The Claimants appealed, stating that the court misjudged the facts and incorrectly applied the laws that rule the matter at issue, highlighting that the Defendants' store defined itself as a "brand

of low cost perfumes inspired in major brands”, being, therefore, a business of “low investment and high profitability” – free of royalties and advertising fees. Thus, the Defendants’ business model was created and monetized at the expense of major brands of original perfumes.

The Lisbon Court of appeal considered that numerous facts were wrongly judge as non-proved and concluded that the Defendants had in fact a business model with a low investment and high profitability due to the selling of the so called “low cost perfumes” through comparative references to the Claimants registered trademarks.

The Court recognized that the Defendants did not incurred the same amount of overall costs as the Claimants, namely with the perfumes creation, the trademark protection and advertisement investments and that was why they were able to have a low-cost philosophy, selling very similar fragrances by a much inferior price.

**i. Infringement of the rights conferred by the trademark registration**

It is essential to notice that the perfumes at issue and the trademarks that distinguish them were considered by the Court of Appeal well-known and prestigious.

Even though the consumers knew they were not buying a product from the Claimants, at issue was an infringement of the rights conferred by the registration – according to Articles 224.º and 258.º of the Portuguese Industrial Property Code, the registration of a trademark gives its owner a property right and the exclusive right of its use, preventing others from using it in similar products or services without consent.

In this context it is important to take into consideration Article 10, no. 2, c) of the Trademark Directive (Directive (EU) 2015/2436 of the European Parliament and of the Council of 16 December 2015), which establishes that without prejudice to the rights of proprietors acquired before the filing date or the priority date of the registered trade mark, the proprietor of that registered trade mark shall be entitled to prevent all third parties not having his consent from using in the course of trade, in relation to goods or services, any sign where: the sign is identical with, or similar to, the trade mark irrespective of whether it is used in relation to goods or services which are identical with, similar to, or not similar to, those for which the trade mark is registered, where the latter has a reputation in the Member State and where use of that sign

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<sup>1</sup> Lisbon Court of Appeal, Judgement of February 1<sup>st</sup>, 2018, Case 346/15, available in Portuguese on <http://www.dgsi.pt/jtrl.nsf/33182fc732316039802565fa00497eec/c079bcf8ad6e4fa080258248004cfc24?OpenDocument> (last accessed on April 3<sup>rd</sup>, 2018).

without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.

Plus, no. 3 of the same article states that may be prohibited under paragraph 2, to use the sign in comparative advertising in a manner that is contrary to Directive 2006/114/EC concerning misleading and comparative advertising.

The Court of Appeal concluded, in this respect, that the Defendants were using the Claimants trademarks to compare the products, which constituted an infringement of the Article 16.º, no. 2 of the Portuguese Advertising Code – establishes the conditions under which the comparative advertising is allowed<sup>2</sup>.

**ii. Act of unfair competition**

The Court of Appeal considered that the conduct of the Defendants also represented an act of unfair competition: the use of comparative references, offering an alternative low-cost perfume to the one distinguished by a registered trademark, aiming to take advantage of another's trademark, namely their notorious and prestigious nature, and divert their clients, is an act contrary to the rules and honest practices of this economic field as stated in the Article 317.º, no. 1, al. c) of the Portuguese Industrial Property Code<sup>3</sup>.

In the light of the above, besides being condemned in refraining from making references to the Claimants trademarks, the Lisbon Court of Appeals also award the Claimants a compensation for losses and damages, as established in the Article 338.º-L Portuguese Industrial Property Code.

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<sup>2</sup> Requirements:

- a) It cannot be misleading advertising;
- b) To compare the goods or services that fulfill the same needs or goals;
- c) To compare in an objective way the essential, relevant, demonstrable and representative characteristics of the goods or services;
- d) It cannot cause confusion in the market between professionals, the advertiser and a competitor company or between trademarks, trade names, other distinguish marks, goods or services of the advertiser and those of the competitor;
- e) It does not discredit or denigrate the trademarks, trade names, other distinguish marks, goods, services, activities or the situation of a competitor;
- f) In cases of designation of origin, the products must have the same designation;
- g) It cannot take advantage of the reputation of a trademark, trade name or other distinguish mark of a competitor or of designation of origin;
- h) It cannot present a good or a service as an imitation or copy of a good or service whose trademark or trade name is protected.

<sup>3</sup> Cfr. Recital 40 of the Directive (EU) 2015/2436: “This Directive should not exclude the application to trademarks of provisions of law of the Member States other than trade mark law, such as provisions relating to unfair competition, civil liability or consumer protection.”