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Trash or treasure?

Controlling your brand in the age of upcycling

By **Andrea Anderson**, Holland & Hart

In summary

– Upcycling is the creation of jewellery, fashion and other objects assembled from used and thrown-out items, such as product packaging. As a result, these upcycled goods often carry the names of high street brands. But what are the implications for trademark owners when their brand names appear on recycled goods that are being sold?

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Recycling is so '90s. What's hot now is "upcycling," the creation of jewellery, fashion and objects for the home assembled from used, thrown-out, found and repurposed elements, sometimes known as "trashion." Thanks to the upcycling movement, the eco-conscious consumer can store her writing instruments in a pencil case made from OREO cookie wrappers, carry that pencil case in a purse made from FIRESTONE tyre inner tubes, and accent her home with wall art crafted from TIDE and GAIN detergent bottles. These "trashion" products possess a certain eco-chic cachet, particularly where they display the trademarks and other branding of the original repurposed elements.

Without a doubt, upcycling confers an environmental benefit by reducing, or at least delaying, the addition of trash to our landfills. But even the most eco-conscious brand owners have a right to be concerned about the uncontrolled use of their trademarks on upcycled products.

Notwithstanding these concerns, the law is fairly well-settled that a brand owner has almost no right to control the resale of its branded goods. The legal doctrine of "exhaustion" provides that once a trademark owner has made the initial sale of its product, it cannot use the trademark laws to control how and where its product is marketed or sold. In other words, when the trademark owner authorises the initial sale of branded goods, it implicitly grants a licence to use its trademark to future sellers of those goods, even if those sellers are outside the authorised distribution chain.[1]

For example, a consumer who buys a tennis racquet at retail and resells it on eBay has every right to inform consumers of the racquet's brand and even to promote the racquet under the brand name. But what if that same consumer fashions a shoddy lawn chair from several used tennis racquets and sells it on eBay? Is the racquet company powerless to prevent its brand name from being used in connection with inferior-quality lawn furniture?

Not necessarily. The exhaustion doctrine or "first sale" rule prevents a brand owner from taking action only where the branded goods are sold in their original unaltered state. However, there is an exception to the rule for instances where a branded product has been "materially altered" in some aspect, but nevertheless sold as "new."[2] In these instances, courts have held that the alteration renders the product infringing. Courts reason that, when consumers buy a branded product, they believe they are receiving, and are entitled to receive, the exact product as produced or authorised by the brand owner. Therefore, when a product bearing a trademark has been altered, consumers are likely to be deceived, confused, or mistaken about the qualities, features, or characteristics of the product. It is this likelihood of confusion, mistake or deception that creates liability for trademark infringement.

A "material alteration" leading to trademark infringement liability can include repackaging or reconstruction of a product.[3] For example, in a 1994 case brought by Eastman Kodak, a defendant created and sold disposable cameras constructed from used parts, including lenses that it obtained from used and discarded disposable KODAK cameras. Although the defendant sold the cameras under a different mark, the packaging for the cameras prominently featured the phrase "KODAK lens." The court found that this prominent use of the KODAK mark was likely to cause consumers to mistakenly believe that Eastman Kodak endorsed the quality of these used and potentially damaged lenses. Consequently, the court preliminarily enjoined the defendant from prominently displaying the KODAK mark on its packaging.[4]

Based on this reasoning, there are good arguments, that, in some instances, the presence of a brand name on an upcycled product is likely to cause consumers to mistakenly believe that the product was produced under the authority of the brand owner or that the product complies with the brand owner's quality standards.

Take, for example, a messenger bag constructed from only one brand of cookie wrappers, where the trademark is prominently and frequently featured in the product design. A reasonable consumer could conclude, based on the prominence of the trademark, that this product was produced by the brand owner or under its authority.

Consider, on the other hand, a tin wall ornament, constructed from several different materials, including reclaimed cookie tins, anti-freeze containers, and SPAM spiced ham cans. Here, the appearance of the brands is partial and incidental. When confronted with this product, a reasonable consumer would not likely associate it with any one brand owner. Consequently, the product should not be deemed infringing. These examples illustrate that, like every trademark dispute, whether the use of a brand name on an upcycled product constitutes infringement is a highly fact-intensive inquiry, which should depend on the subtleties of each case.

Without clear legal guidance on the issue, what strategy should a company adopt if it encounters upcycled products incorporating its brands? In most instances, a company will have three options: (1) ignore the upcycled product; (2) send a demand letter or file a lawsuit; or (3) attempt to negotiate a licence with the upcycler, through which the company may control the use of its brand.

Option 1

Ignoring the issue is probably the most broadly employed strategy. Some brand owners may assume, not without reason, that the use of their brands in upcycled products is not harming brand image and that consumers are unlikely to attribute the upcycled product to the brand owner. But ignoring upcycling entirely can lead to a host of problems. First, it sets a bad precedent. Even if the first upcycler produces harmless products on a small scale, the next upcycler might not. Failure to police the first could weaken a brand owner's case against the second. More concerning, in the event that an upcycled product is the subject of a product liability claim, evidence that a company knew its packaging was used to create a potentially harmful product but failed to take action could be damaging from legal and public relations standpoints.

Option 2

Sending a demand letter and/or initiating a lawsuit are among the most direct ways to approach the situation. Before taking legal action, however, companies should seriously consider obtaining a consumer survey to determine whether confusion is likely. Solid survey evidence showing a likelihood of consumer confusion may be critical to any case, since the use of brands in upcycled products is a fairly novel issue. Aside from the legal merits of a lawsuit, companies should also consider the public relations fall-out associated with their actions. A company's zero-tolerance approach to the repurposing of its branded packaging could result in negative reports in the press and blogosphere that portray a company as a polluter with little concern for the environmental impacts of its products and packaging.

Option 3

Pursuing a licensing arrangement with an upcycler may prove to be a more productive approach for both the brand owner and the upcycler. Most significantly, under a licensing arrangement, a brand owner can control the use of its brand and ensure that any upcycled products are consistent with its brand image. Any licence with an upcycler should contain provisions that establish the brand owner's right to monitor the quality of products and to reject products that do not meet its standards. In addition, the licence should specify the types of products that the brand owner's packaging or product may be used to create, and it should require the upcycler to obtain advance written approval for any additional products. Other important provisions include the upcycler's indemnification of the brand owner and a disclaimer of all warranties by the brand owner.

Kraft Foods Company chose the licensing option, and its partnership with Terracycle, a company that makes innovative products from "waste-stream" materials, is one of the most successful and high-profile upcycling arrangements today. As a part of their partnership, both Kraft and Terracycle encourage consumers to send packaging from Kraft's BALANCE and SOUTH BEACH LIVING bars, CAPRI SUN beverages, and CHIPS AHOY! and OREO cookies to Terracycle. Kraft even pays consumers a few cents for every item as long as the proceeds are directed to non-profit groups. Terracycle converts these items into pencil cases, backpacks, shopping bags, homework folders and lunch boxes that are sold through retailers such as Target and Office Max. As a result of this partnership, Kraft receives favourable publicity and increased exposure for its brands while Terracycle receives a steady stream of raw material for its products.

Of course, not every reuse or repurposing of a branded product or packaging is a candidate for an upcycling partnership. Where a product is poorly constructed, doesn't fit with the brand image, or portrays the brand unfavourably, a brand owner should consider taking affirmative measures to prevent the misuse of its brand.

Notes

1 *Polymer Technology Corp. v. Mimran*, 975 F.2d 58, 61 (2d Cir. 1992); see also Restatement Third, Unfair Competition § 24, comment b (1995).

2 *Brilliance Audio, Inc. v. Haights Cross Communications, Inc.*, 474 F.3d 365, 370 (6th Cir. 2007); *Davidoff & CIE, S.A. v. PLD Intern. Corp.* 263 F.3d 1297, 1302-04 (11th Cir. 2001); see also Restatement Third, Unfair Competition § 24, comment d (1995).

3 *Eastman Kodak Co. v. Photaz Imports, Ltd*, 853 F. Supp. 667 , 674 (W.D.N.Y. 1993) aff'd without pub. op. 28 F.3d 102 (2d Cir. 1994).

4 Id. at 678.