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We provide you with updates on new decisions, the relevant legislative process and other trends in the fields of intellectual property and unfair competition law from a Swiss perspective.

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Swiss Federal Supreme Court on the Customisation of Branded Goods

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In a landmark decision, the Swiss Federal Supreme Court for the first time assessed whether the customisation of branded goods constitutes trademark infringement. While providing customisation services to a customer is considered lawful, reselling customised goods in general constitutes trademark infringement.

Background

A Swiss company specialises in the customisation of luxury watches, particularly Rolex watches. The modifications are carried out at the aesthetic and/or technical level of the watches. Rolex has never granted the company permission to modify its watches and sued for trademark infringement. The first-instance court granted Rolex injunctive relief. The defendant appealed the decision to the Federal Supreme Court.

Decision

In its decision of 19 January 2024, the Supreme Court addressed the unauthorized customisation of branded goods for the first time (decision 4A_171/2023). It distinguished between two business models.

The first business model consists of providing customisation services. The customer already owns the branded product in question and the service provider modifies the product at the customer's request, returning it afterward. For there to be trademark infringement, the disputed use must take place in the course of trade, while private use is generally lawful. The Supreme Court held that the owner of a branded product has the right to modify the product for private use. Furthermore, there is no good reason to treat modifications differently depending on whether they are made by the owner or by a third party engaged by the owner. In both instances, there is no use in the course of trade. Consequently, providing customisation services does not constitute trademark infringement.

The second business model consists of offering customised goods. Genuine goods are modified and then offered for (re)sale. The Supreme Court found that such use does not constitute private use, but rather use in the course of trade. In general, the exclusive rights conferred by a trademark are exhausted when a product bearing the trademark has been put on the market by the trademark owner or with its consent. However, this does not apply to goods that have been subsequently modified without the trademark owner's consent. Instead, the exclusive rights conferred by the trademark are revived, allowing the trademark owner to take action against the modified goods bearing its trademark. Thus, placing modified trademarked goods on the market without the consent of the trademark owner, in principle, constitutes trademark infringement.

In the case at hand, the defendant's activities were limited to the first business model, which the Supreme Court found non-infringing. In addition, the Supreme Court held that the services offered by the defendant did not constitute unfair competition. However, it remanded the case to the lower court to decide whether the way in which the defendant offered

its customisation services was infringing, in particular whether it created a false impression of affiliation with Rolex.

Comment

Customising branded goods, especially luxury goods to make them even more exclusive, has become a business model. This trend extends beyond the watch industry to other sectors, such as fashion and automotive. However, it conflicts with the desire of many brand owners to maintain control over the appearance of products associated with their brand. The Supreme Court's decision therefore has significant practical relevance. It also provides guidance for similar phenomena, such as upcycling.

Several customisation business models do not fit neatly into the two categories identified by the Supreme Court. For example, some online retailers offer branded goods that customers can customise according to their wishes using configuration tools prior to purchase. Therefore, it seems unlikely that the Supreme Court's ruling will be the last word on customisation business models.

The Supreme Court's ruling also raises questions. For instance, if a customer who has had his goods lawfully customised subsequently sells the customised goods (for example, at an auction), this sale will often not constitute private use, but rather use in the course of trade. As in the second business model referred to by the Supreme Court, the customer thus resells customised goods and is at risk of infringing the relevant trademark. Similarly, a customisation service provider who knows or should know that the customer will sell the customised goods in an infringing manner may risk contributing to the infringement.

Finally, the Supreme Court's view on reselling modified goods, which it considers in principle unlawful, appears rather strict. In order for the exhausted exclusive rights conferred by a trademark to be revived, it is generally necessary that essential product-specific properties and characteristics are altered. While certain customisations of branded goods, such as repainting cars before (re)sale or reselling custom-fitted fashion items, may well remain within these limits, others, such as applying artwork to plain sneakers or tuning cars before (re)sale, will challenge them. It will be interesting to see whether these limits to the exhaustion principle will be tested by customised goods in the Swiss courts in the future.