

IP and Competition Law Newsletter Switzerland

Nespresso- what else?

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The Swiss court battle between Nestlé and Denner, a leading Swiss grocer's discount store, on trademark infringement regarding coffee capsules that are compatible with Nespresso's coffee machines has taken a new turn. By denying a risk of confusion between the Nespresso capsule and Denner's coffee capsule, the Commercial Court of St. Gallen has paved the way for new entrants into the Nespresso coffee market.

Nestlé is losing ground in its widespread legal fight against competitors marketing coffee capsules that are compatible with Nestlé's Nespresso coffee machines. Only one month after the UK High Court dismissed Nestlé's claims, that a compatible coffee capsule infringed Nestlé's patent rights¹, the Commercial Court of St. Gallen ("Commercial Court") in the context of interim relief proceedings limited the scope of trademark protection of the Nespresso capsule and denied Nestlé's request for injunction².

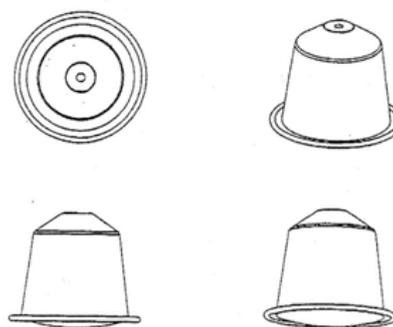
1 The facts of the case

Over the past three decades, Nestlé has been successfully marketing its Nespresso system, which has two basic components: Nespresso machines and Nespresso capsules. Next to various patents relating to the machines and the capsules, Nestlé has registered a three dimensional trademark ("3D Trademark") for the form of the capsule in

¹ Nestec S.A. and others v. Dualit Limited and others [2013] EWHC 923 (pat.)

² Decision of the Commercial Court St. Gallen dated 21 May 2013 (HG-2011-199).

Switzerland and other international jurisdictions³.



Nespresso Capsule CH Trademark No. P-486889

In December 2010, Denner put coffee capsules compatible with Nespresso coffee machines on the market.



Denner Capsule

Upon request of Nestlé and based on its 3D Trademark, the Commercial Court issued a preliminary injunction in *ex parte* proceedings against Denner in January 2011, prohibiting the distribution of the competing capsules. In the subsequent *inter partes* proceedings, after having heard the pleadings of Denner, the same court, however, revoked the decision and held that the 3D Trademark was invalid because the registered form of the capsule was technically necessary, particularly for capsules intended to be compatible with Nespresso's coffee machines.

³ CH Trademark No. P-486889.

Upon appeal, the Swiss Supreme Court⁴ held that notwithstanding the fact that the Supreme Court in previous decisions refused to assess the issue of technical necessity only with a view to compatibility with a certain system, the Commercial Court was not arbitrary in taking a different view with regard to this issue. On that basis, the Supreme Court supported the Commercial Court's argument that the issue of technical necessity may be assessed only in relation to coffee capsules compatible with the Nespresso coffee machine. Nevertheless, the case was remanded to the Commercial Court because it should have analysed the issue of technical necessity through an independent expert.

2 The Commercial Court's decision

Validity of the 3D Trademark: In its recent ruling of 21 May 2013, the Commercial Court confirms the validity of the 3D Trademark on the basis of the expert report. In particular, the court concludes that **only the annular rim was technically necessary** within the meaning of Swiss trademark law. As the conical shape of the capsule could be replaced by another form, it was subject to trademark protection.

Risk of confusion: Having recognised the validity of the 3D Trademark of the capsule, the Court analysed the risk of confusion between the 3D Trademark and the Denner capsules.

In that regard, Nestlé had submitted the **results of a survey providing evidence that 65%** of the relevant consumers did in fact allocate Denner's capsule to Nespresso. Somewhat surprisingly, the court held that the survey did not constitute sufficient evidence to assume a likelihood of confusion. It argued that because Nestlé was the undisputed market leader in the coffee capsule market, it was self-suggesting that the public would perceive any conical shaped coffee capsule to be a Nespresso capsule. This even more so, as Denner chose a form suggesting compatibility with the Nespresso machines.

Consequently, the court had to assess the form of the capsules in detail.

A **likelihood of confusion** has to be determined by taking all circumstances into consideration.

As the body of the capsule is based on an elementary geometrical form (frustum of a cone), which most coffee capsule providers use, the body itself is of little relevance in the assessment of a likelihood of confusion. Moreover, the annular rim may not be taken into account as it is technically necessary. The court thus considered the volcano-shaped head of the capsule to be the characteristic part that must be taken into particular consideration when assessing the likelihood of confusion.



Nespresso Capsule

Denner Capsule

In its assessment, the Court concluded that the overall impression of the two coffee capsules was **sufficiently different to exclude a likelihood of confusion**.

Subsequently, Nestlé's request for injunctive relief was denied and Denner was granted the right to sell its coffee capsules compatible with Nespresso machines. As a precaution, Denner had, however, already changed the shape of their capsules during proceedings in order to clearly distinguish themselves from Nespresso capsules.

Nestlé, on the other hand, said to be satisfied with the decision to the extent it recognised the validity of their 3D-Trademark. Even though unhappy that the Court did not establish a breach of their trademark, they announced they had no immediate intention to fight the decision.

July 2013

This Newsletter is not intended to provide legal advice.

Before taking action or relying on the information given, addressees of this Newsletter should seek specific advice.

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⁴ Decision of the Swiss Supreme Court dated 28 June 2011 (4A-178/2011).

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