

Newsletter No.

10

Swiss IP News 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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Federal Supreme Court Holds that Shape of Nespresso Capsules is Technically Necessary

In a recent decision, the Swiss Federal Supreme Court invalidated the trademark protection of the 3D mark featuring a Nespresso capsule (4A_61/2021 of 7 September 2021). It argued that the shape of the capsule and thus of the 3D mark was technically necessary to be utilised with Nespresso coffee machines. As a consequence, the Court considered the trademark to be "absolutely excluded" from trademark protection in accordance with Article 2(b) of the Swiss Trademark Protection Act (TmPA).



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Background

The Nespresso system, meaning the Nespresso machine and its corresponding coffee capsules, was developed and patented by Société des Produits Nestlé S.A. in the 1970s. The Swiss patent protection expired in 1996. For continued protection and extended exclusivity, Société des Produits Nestlé S.A. tried to protect the shape of its capsules by means of a 3D mark in the early 2000s.

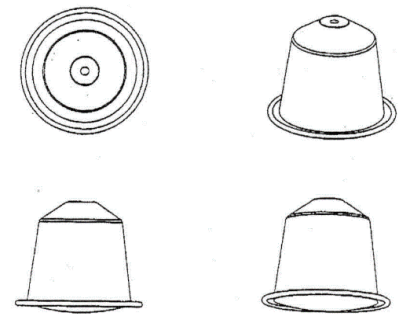


Fig. 1: 3D mark CH No. P-486889

After a provisional refusal of the trademark on the grounds of lacking distinctiveness, the Swiss Federal Institute of Intellectual Property awarded the capsule trademark protection as a 3D mark with acquired distinctiveness (CH No. P-486889, Fig. 1).

In the early 2010s, the Ethical Coffee Company Ltd. and Ethical Coffee Company (Suisse) Ltd. (together "**Ethical Coffee**") introduced the following biodegradable capsule compatible with the Nespresso system (Fig. 2).

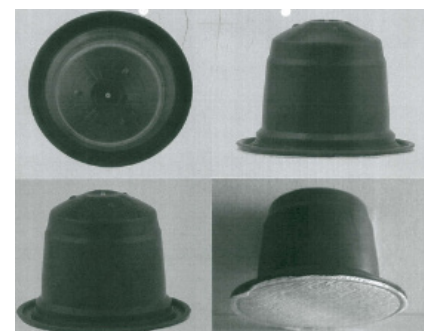


Fig. 2: Ethical Coffee capsule

Following Ethical Coffee's market entry in Switzerland, Société des Produits Nestlé S.A. and Nestlé Nespresso Ltd. (together "**Nestlé**") applied for an interim injunction before the Civil Court of Vaud to prevent Ethical Coffee from commercializing their capsules. Although Nestlé's request was upheld at first instance, the Swiss Federal Supreme Court overturned this decision on procedural grounds. In September 2014, the lower court rejected Nestlé's application for a preliminary injunction confirming that the capsules were technically necessary.

With the provisional procedure still ongoing, Nestlé brought its main claim before the Civil Court of Vaud in February 2012 requesting a permanent injunction against the commercialization of Ethical Coffee's capsules. In December 2020, the lower court rejected Nestlé's request. It argued that the registered mark was invalid given Nestlé's inability to demonstrate the capsule's distinctive character required by Article 2(a) TmPA. Based on the expert opinions, the lower court further ruled that the 3D mark was not technically necessary.

Decision

On appeal, the Swiss Federal Supreme Court solely examined whether the Nespresso capsule was a technical necessity excluding the form from trademark protection according to Article 2(b) TmPA. This argument takes priority as it is absolutely impossible to register a technically necessary form, even if it had acquired distinctiveness through use.

In circumscribing the notion of technical necessity, the Swiss Federal Supreme Court comparatively considered the European and the German conceptions of technical necessity in accordance with trademark law. Under Swiss law, a shape is technically necessary if a competitor does not have an alternative shape for a

product of the same kind, or if it cannot reasonably be required of the competitor in the interest of workable competition. With regard to European case law, the Swiss Federal Supreme Court, inter alia, took into account the Lego decision of 14 September 2010 (No. C-48/09), in which the European Court of Justice ("**CJEU**") elaborated that the perpetuation of exclusive rights to technical solutions by way of trademark law must be avoided. In doing so, the Swiss Federal Supreme Court cited the CJEU's view that competition law considerations are inherent to trademark law and stipulated that these considerations should be applied in the present case, too. The Swiss Federal Supreme Court further referred to the German Federal Patent Court rejecting trademark protection of the Nespresso capsules as an international 3D mark in Germany in 2017 (decision No. 25 W [pat] 112/14). Against this comparative background, the Swiss Federal Supreme Court held that under Swiss law a form was technically necessary if no equivalent alternative solution existed.

In examining the alternative solutions available, the Swiss Federal Supreme Court applied a stricter equivalence standard than the lower court. Alternative solutions must (a) be equivalent to the Nespresso capsules insofar as it should not be disadvantageous for competitors to use an alternative form and (b) not cause even a slight increase in manufacturing costs. Corresponding to the dispute of Nestlé Nespresso SA vs. Denner AG decided by the St Gall Commercial Court (addressed in BGer 4A_178/2011 of 28 June 2011, E. 2.2 not published in BGE 137 III 324), the alternative solution should be compatible with Nespresso machines. Based on several expert opinions, hypothetical capsules proposed by Nestlé and given the existence of competitors' compatible capsules, the Swiss Federal Supreme Court concluded that there were

alternative shapes for capsules compatible with Nespresso coffee machines. Nevertheless, the Court held the alternative solutions to be **inequivalent** to Nespresso capsules for numerous reasons. For instance, the Court established that the alternative solutions did not hold as much coffee as Nespresso capsules, further caused leakage problems and had a higher risk of jamming coffee machines. Moreover, their production was more costly.

While the Swiss Federal Supreme Court arrived at the same conclusion as the lower court, it held that the Nespresso capsule was a technical necessity according to Article 2(b) TmPA. Hence, it considered the 3D mark to be "absolutely excluded" from trademark protection, irrespective of a potentially acquired distinctiveness.

Comment

Compatibility is no foreign concept in trademark law. In the landmark cases of BGE 129 III 514 and BGer 4A_20/2012 of 3 July 2012 (together "**Lego III**"), the Swiss Federal Supreme Court already addressed the issue of a compatible substitute part for a product system being protected as a 3D mark and established – based on the prevailing legal doctrine – concepts on which to judge technical necessity. In the present decision, the Court followed and consolidated in large parts the concepts developed by such previous case law. Moreover, the Court took into account the European and the German notions of technical necessity and incorporated the competition law aspects highlighted by the CJEU in their rulings. This comparative assessment is to be welcomed in light of the issue's internationality.

However, the question remains as to what extent it is justified for trademark law to consider competition aspects to elucidate the question of technical necessity.

By limiting the examination of alternative forms to forms that are compatible with Nespresso machines, the Swiss Federal Supreme Court arguably did not consider that Nespresso was not the only capsule system or, for that matter, the only way to produce coffee. Moreover, it is questionable whether this issue should not have been resolved by directly applying competition law legislation instead of applying competition law considerations under a trademark law cloak.

Nevertheless, the need to keep a technical necessity free of trademark protection derives from a competition law rationale. With regard to the case at hand, the Swiss Federal Supreme Court stipulated that the Nespresso capsule was first registered as a patent and thus as a technical solution. It is the limitation of the compatibility to only the Nespresso machine instead of coffee production in general with the consequent examination of alternative forms for a closed system that allows for Article 2(b) TmPA to achieve its desired effect, i.e. to avoid technical solutions being perpetually protected by way of trademark law.

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