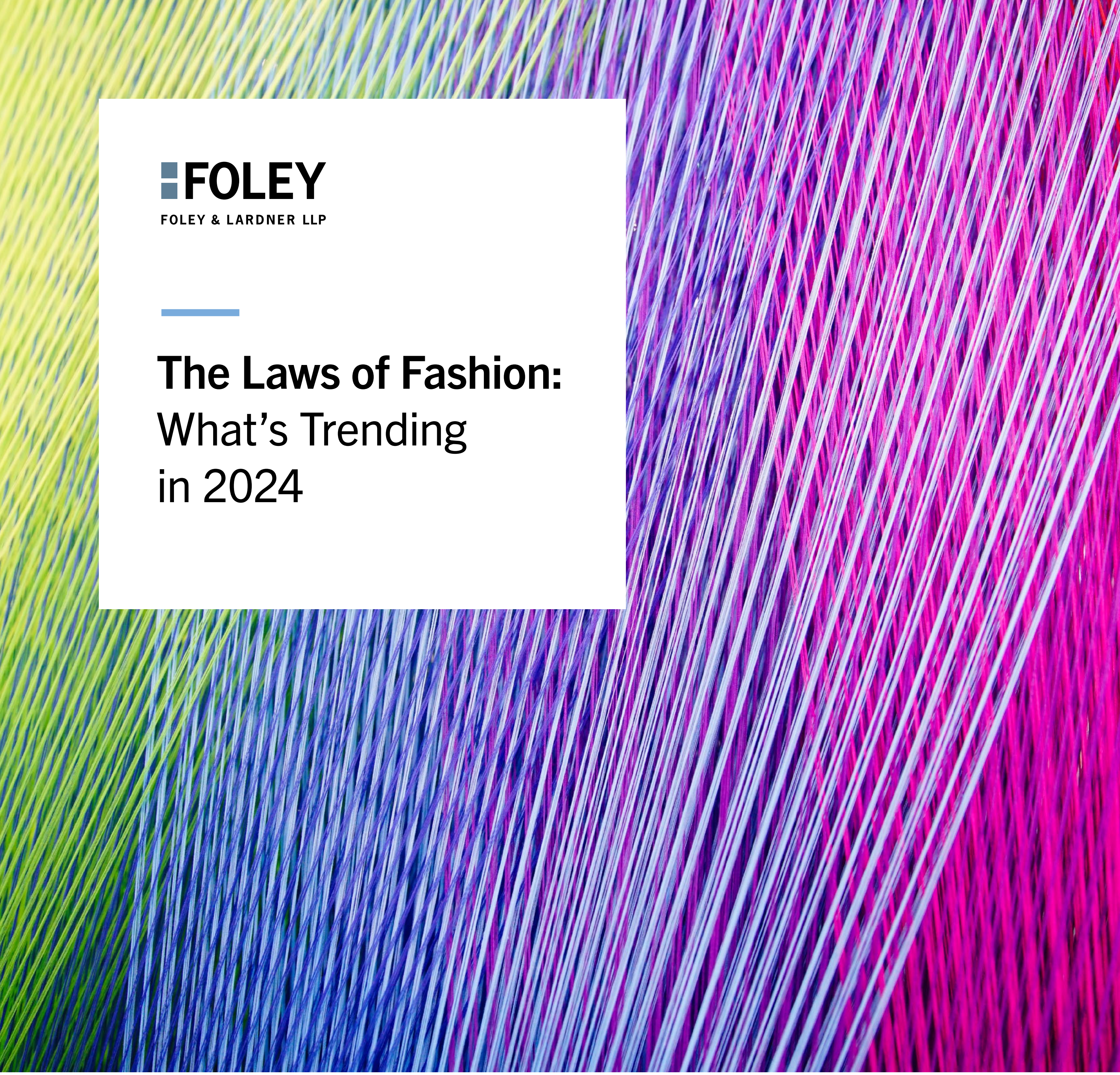

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The Laws of Fashion: What's Trending in 2024

PREPARED BY THE FOLEY & LARDNER
FASHION, APPAREL & BEAUTY TEAM

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Head to Toe, Foley Has You Covered

As we make further strides into 2024, the fashion, apparel, and beauty landscape continues its dynamic evolution, marked by opportunities and challenges. Consumer preferences, technological breakthroughs, geopolitical shifts, and legal frameworks shape the industry's trajectory, presenting a rich tapestry of possibilities. We are excited to unpack fast-moving developments such as upcycling in fashion, the growing presence of AI across the industry, recyclability and sustainability, the state of the resale market, and more.

The Laws of Fashion: What's Trending in 2024 examines case law, and shares insights on cases to watch, impactful trends, and pressing issues to help guide your business through opportunities, threats, and uncertainties. The Fashion, Apparel & Beauty industry team at Foley & Lardner remains at the forefront, attuned to the latest developments and comprised of a depth and breadth of practice to help navigate you through industry shifts. We hope you find this information insightful and encourage you to contact a member of our team if we can discuss any of these issues in greater detail or assist you with any of your business needs.

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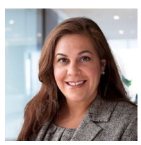

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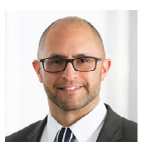

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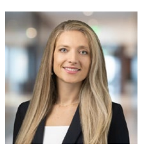

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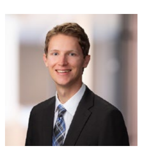

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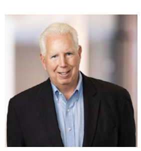

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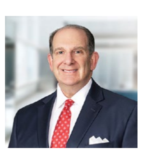

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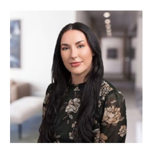

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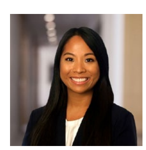

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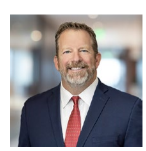

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Cases to Watch in 2024

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In 2024, courts across the United States will hear and resolve key legal questions affecting the fashion, apparel, and beauty industry. This term, the U.S. Supreme Court is expected to decide a key case at the intersection of First Amendment and trademark law examining procedure at the United States Patent and Trademark Office (USPTO). Elsewhere, federal courts will preside over intellectual property disputes affecting some of the biggest brands in the fashion and beauty fields. Market actors looking for brand strategy are poised to receive the latest legal guidance in the areas of fast fashion, trademark enforcement, resale, sustainability, and more.

Vidal v. Elster

By summer 2024, the U.S. Supreme Court will decide an as-applied constitutional challenge to a longstanding rule in trademark examining procedure — namely, that applicants must receive the written consent of any individual whose name, portrait, or signature appears within the mark itself. Consistent with this rule, the USPTO refused a trademark application filed by Steve Elster, Respondent, for "TRUMP TOO SMALL," covering shirts. The Trademark Trial and Appeal Board affirmed the refusal, but the Federal Circuit reversed. The Supreme Court heard oral arguments on November 1, 2023.

Elster argues that the application of the relevant statute, 15 U.S.C. § 1052(c), to his case is unconstitutional as an undue burden on protected speech. This approach is only the latest in a series of First Amendment-driven attacks on the Lanham Act, which attacks resulted in the invalidation of related provisions in *Matal v. Tam*, 582 U.S. 218 (2017), and *Iancu v. Brunetti*, 139 S. Ct. 2294 (2019). In *Vidal*, Elster argues that the "Names Clause" of the Lanham Act has the "intent and effect" of disfavoring ideas and suppressing unwanted speech. The Names Clause has, as Elster argues, created a shield for powerful people to block the use and registration of trademarks that criticize them. The Federal Circuit agreed, holding that, as applied here, the Names Clause involves content-based discrimination that cannot pass strict nor intermediate scrutiny.

Petitioner, Katherine Vidal, argues that a more lenient standard of review should apply. She believes that the Names Clause merely imposes a "condition" on a government "benefit" — here, the granting of federal trademark registration. Further, she cites at least three reasons why the Names Clause serves reasonable government interests. Chief among these reasons is the bedrock principle of avoiding a likelihood of consumer confusion about an individual's affiliation with a product. As Vidal argues, the registration of an individual's name without the individual's consent will provide federal support for a mark that inherently confuses the public about the owner's affiliation with the individual.

While the Court has not yet issued an opinion in this case, the justices seemed skeptical of Elster's position at oral argument. As Justice Kagan noted, the statute is facially content-neutral, only requiring the written consent of the living individual. Justice Gorsuch took issue with Elster's position that content-based restrictions were broadly impermissible under the Lanham Act, pointing out that such restrictions have, historically, been inherent to trademark examination. For her part, Justice Jackson downplayed the effect of the refusal on Elster's rights, noting that the refusal only barred Elster's registration of the mark, not his right to use it. While the Court has been friendly to First Amendment-based critiques of the Lanham Act in recent years, it seems far less friendly to Elster's position here, given that historical and textual arguments seem to favor Vidal.

Chanel, Inc. v. What Goes Around Comes Around, LLC

On February 6, 2024, a New York jury unanimously sided with luxury fashion brand Chanel in its years-long trademark infringement case against noted reseller What Goes Around Comes Around (WGACA). As counsel for WGACA noted immediately after the verdict, the case is not over — the court has yet to rule on post-verdict motions. In addition, Chanel is seeking additional equitable remedies, including a permanent injunction and disgorgement of WGACA's profits.

This closely watched case operates at the intersection of high fashion and commercial resale. Chanel is a world-renowned luxury fashion brand with annual sales well into the hundreds of millions of dollars, while WGACA describes itself as "the leading global purveyor of authentic luxury vintage accessories and apparel, including Chanel accessories and apparel." In the lawsuit and at trial, Chanel argued that WGACA's use of Chanel's trademarks on its website and in advertisements and promotions was likely to mislead consumers to think that Chanel had authorized WGACA's commercial activities. Chanel also alleged various violations under the Lanham Act and the New York laws of unfair competition and false advertising. WGACA argued that the doctrine of nominative fair use shielded it from liability. Among the many issues considered, Chanel argued that WGACA could not verify the authenticity of its Chanel products, despite WGACA's declarations otherwise, because WGACA vetted the products itself.

It is too early to identify the full impact the jury verdict may have on the secondhand market for luxury fashion, but, in another article, Luxury Resellers — A Marketplace Filled with Tricks or Treasures?, we preview lessons learned and predict how resellers and brand owners may react to the verdict.

The *Shein* Cases

Shein is a fast-fashion retailer, headquartered in Singapore, that rose to international prominence during the COVID-19 pandemic through targeted marketing on popular social media platforms such as TikTok and Instagram. Critics have attributed Shein's success to manufacturing strategies and promotional campaigns that capitalize on younger audiences' attraction to trendy, low-cost fashion. In 2022, at its peak, Shein received a valuation of approximately US$100 billion. It is expected to launch an initial public offering in 2024.

Shein's explosive growth has tapered off in recent months, amid questions about conditions in its Chinese factories and a battery of lawsuits accusing it of copyright infringement, unfair competition, and other illegal business practices.

In 2021, Hennes & Mauritz (H&M) filed a complaint in Hong Kong alleging that Shein had infringed the copyright that H&M holds in several of its most popular designs. More recently, in 2023, Shein was hit with similar lawsuits in the U.S. from the California luxury brand, Chrome Hearts, and from its direct rival, Temu. Then, in January 2024, the Japanese retailer Uniqlo filed a copyright claim in Tokyo district court alleging that Shein had copied the design of Uniqlo's viral mini shoulder bag. Each of these lawsuits remains pending.

These cases, which are but a representative sample of those filed against Shein in recent years, underscore not only the intellectual property protection issues raised by fast fashion, but Shein's white-knuckle business strategy that arguably compels a "race to the bottom," as some commentators have noted with concern. Shein, which first opened its operations in China, has been able to benefit from favorable tax treatment to offer its products in the U.S. at low prices. While H&M argues that Shein has engaged in unfair trade practices, some critics say its lawsuit represents an anti-competitive attempt to bully Shein out of the U.S. market entirely. Among younger consumers, Shein represents a rare entry point into the fashion market without the usual obstacles of price and style. In doing so, it offers an alternative to the secondhand markets that have flourished recently, too. The outcome of these lawsuits may determine if these developments were well earned, or if they came illegitimately through unfair and illegal business practices.

Levi Strauss & Co. v. Brunello Cucinelli USA

Levi Strauss & Co. (Levi Strauss) is suing the Italian luxury fashion company Brunello Cucinelli over allegations of infringement and dilution of Levi Strauss' famous "tab" trademark. Since 1936, Levi Strauss has used a small, folded cloth "tab" bearing Levi's name and mark. Over time, Levi Strauss has incorporated the "tab" design from the back pocket of its pants products into its other products, including, but not limited to, its shirts, hoodies, hats, and coats.

Beginning "at some point in the past," according to the complaint filed by Levi Strauss, Brunello Cucinelli began incorporating a similar tab into similar products. Notably, Brunello Cucinelli claims that its tabs are "iconic earmarks" and convey a "true Brunello Cucinelli style," apparently signaling that its tabs serve as source indicators. Levi Strauss disputes these claims and argues that Brunello Cucinelli's tabs impermissibly trade off the notoriety and goodwill of Levi Strauss. In its prayer for judgment, Levi Strauss encourages the court to hold Brunello Cucinelli liable for trademark infringement, unfair competition, and state and federal trademark dilution, and it seeks injunctive relief based on the same claims.

Since 1989, Levi Strauss has filed more than 300 trademark lawsuits, several of which have focused on the tab. In just the past decade, Levi Strauss has pursued legal action to protect its rights in the tab against Vineyard Vines, Kenzo, Yves Saint Laurent, Hammies, and Coperni. Because of its steady and vigorous enforcement practice, Levi Strauss has historically prevailed, even against companies that may be able to claim a similar historical pedigree, like the U.K.-based Barbour. Its winning record may demonstrate the advantages of an aggressive campaign of enforcement. Given the posture and prominence of the parties, it will be interesting to see whether this case leads to a settlement, or whether Brunello Cucinelli decides to press forward to judgment on the merits.

Nike, Inc. v. Lululemon USA (S.D.N.Y.)

In January 2023, Nike sued Vancouver-based apparel retailer Lululemon over allegations of patent infringement for the second time in as many years. After Lululemon's successful entry into the field of footwear in early 2022, Nike has ramped up its efforts to defend its market position and protect its footwear designs. In this case, Nike contends that Lululemon ripped off certain "Flyknit" patents owned by Nike in the creation of Lululemon's Chargefeel Mid, Chargefeel Low, Blissfeel, and Strongfeel athletic shoes.

The Flyknit technology at the center of this lawsuit has been the subject of other cases in recent years, too. In 2018 and 2022, Nike sued Puma North America, Inc., and Adidas, respectively, on grounds of patent infringement of the Flyknit shoe "uppers" (the construction of the shoe that covers the top of the foot). That same patent forms the basis of the present suit against Lululemon. Moreover, while the Lululemon case has been pending, Nike filed additional complaints against long-time rivals New Balance and Skechers for infringement of the Flyknit technology. The Puma and Adidas cases have settled, while the cases against New Balance and Skechers are ongoing.

In a public comment, a Skechers spokesperson alleged that Nike has been filing these lawsuits to flex its market power "rather than compete in the marketplace." Over the past decade, Nike has allegedly spent upwards of US$100 million creating and refining its Flyknit technology; mesh-top athletic shoes, the embodiment of the technology, have become ubiquitous. Yet, Nike's victory in this suit is not a foregone conclusion. Lululemon and Skechers have both indicated their intent to challenge Nike's exclusive rights in the Flyknit patents on multiple grounds. If either party succeeds, Nike stands to lose a key market advantage, and the floodgates will open for third-party footwear companies to incorporate Flyknit-like technology into their own designs.

Rhode-NYC, LLC v. Rhodedeodato Corp.

On March 5, 2024, Judge Hellerstein of the Southern District of New York re-opened a trademark infringement suit against Hailey Bieber and her fashion corporations, after the parties failed to reach a settlement. The dispute began in 2022, when Hailey Bieber launched her skin care line "rhode," over the opposition of Rhode, a fashion label from Los Angeles in operation since 2014. The latter company has owned RHODE-formative federal trademark registrations since 2017, but argues here that "reverse confusion" is bound to result from Ms. Bieber's operation and promotion of "rhode" products.

"Reverse confusion" occurs when a large junior user saturates the market with a trademark arguably similar or identical to that of a smaller senior user. In the usual likelihood-of-confusion case under 15 U.S.C. § 1114(a), the goods and services of the junior user are most likely to be confused with those of the senior user. In other words, consumers are likely to associate the junior user's products with the senior user. In the case of reverse confusion, the opposite is true, the senior user is likely to be swallowed by the junior user, given the latter's prominence and notoriety. In the present case, there is no dispute that Rhode-NYC, LLC, is the senior user. However, due to the notoriety of Hailey Bieber and her brands, Rhode-NYC argues that the use and registration of "rhode" will compromise its market position, despite its priority of use.

The revival of this case appears to signal that the parties have reached an impasse in settlement negotiations. It may even indicate that Rhode-NYC has reconsidered its seniority and lost the incentive to negotiate entirely. That position would place Hailey Bieber and her companies in a vulnerable position, and jeopardize the success of the "rhode" brand that has already amassed millions of followers worldwide.

Benefit Cosmetics, LLC v. E.L.F. Cosmetics, Inc.

Among other products, California-based Benefit Cosmetics, LLC (Benefit) markets a line of mascara under the name "Roller Lash." The Roller Lash mascara features a distinctive pink-and-black color scheme and uses a brush covered by the trademark HOOK 'N' ROLL. In January 2023, Benefit became aware that its competitor, e.l.f. Cosmetics, Inc. (E.L.F.), was marketing a mascara product featuring a pink-and-black color scheme under the mark LASH 'N ROLL. The next month, Benefit filed a complaint in federal court, alleging that E.L.F. had violated Benefit's rights in its distinctive trademarks and trade dress.

While the case has received little attention from the media, it offers valuable insight for businesses looking to enforce common law trade dress rights. Benefit does not own a state or federal registration for its Roller Lash trade dress; it relies on common law rights to which it claims ownership since 2015. Despite the "intensely factual nature of unregistered trade dress claims", as the court put it, Benefit was able to overcome E.L.F.'s partial motion to dismiss, sufficiently articulating its claimed trade dress and alleging enough facts to support a claim of infringement. In particular, the court found that Benefit had plausibly alleged, through seven years of continuous investment and marketing, that its trade dress had acquired secondary meaning, despite E.L.F.'s contention that inference was unwarranted.

The court's order on Benefit's trade-dress claim provides a useful framework for companies — especially companies in the cosmetics industry — looking for additional enforcement tools for their intellectual property. Depending on how this dispute resolves, it may also provide a data point for cosmetics brands for use in their marketing and design strategy; a win for Benefit would signal that these brands should be especially wary of designs that look similar to those of their competitors, even if the imitation is unintentional.

Recycling or Greenwashing? Considerations for Sustainable Fashion Claims

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The fashion industry is purportedly responsible for four to eight percent of global carbon emissions, rivaling the green-house gas emissions of the entire economies of France, Germany, and the United Kingdom combined.[1] To address these adverse climate effects in the fashion sector and in response to increasing consumer demand for "green" products across industries, both legislative bodies and fashion brands have turned towards making fashion, from manufacturing processes to clothing itself, more sustainable. Fast fashion companies and high fashion brands alike have recently touted the environmental benefits of their clothing lines, making claims highlighting the lower carbon impact of their supply chains and factories[2] and the eco-friendly amount of water used to make a pair of jeans[3] to the recyclability of their products and packaging.[4]

But making recyclability and sustainability claims is not without risks that fashion brands must weigh against consumer demand. Section 5 of the Federal Trade Commission (FTC) Act and analogous state laws, such as California S.B. 343, regulate the content of environmental claims. And though there are some commonly used references points that guide recyclability and other environmental claims, such as the FTC's Guides for the Use of Environmental Marketing Claims,[5] it is not always clear what a fashion brand can and cannot say regarding the environmental impact of their clothing and manufacturing processes. Indeed, as with nearly *any* recyclability claim, these ambiguities present some risk to fashion brands of potential liability and "greenxtortion" demands or other civil lawsuits if, for example, their products or packaging misrepresent, directly or by implication, the recyclability of the packaging and/or product. Even where no misrepresentation occurs, fashion brands are increasingly seeing frivolous "greenxtortion" demands and other complaints to which they must respond, alleging, for instance, that the consumer would not have purchased the product had they realized it was only recyclable at certain facilities.

With such demands on the rise and an increasingly complex regulatory scheme with which fashion brands must comply, the fashion industry must ask, "is making environmental and recyclability claims worth the risk and added costs?" For those that have answered, "yes," there are concrete steps that the fashion industry can take to reduce the risk of potential claims and related liability.

[1] https://www.mckinsey.com/industries/retail/our-insights/fashion-on-climate

[2] https://equilibrium.gucci.com/wp-content/uploads/2020/06/1.-GUCCI_PressRelease_CarbonNeutral_ENG_final.pdf

[3] https://www.uniqlo.com/jp/en/contents/sustainability/planet/products/bluecyclejeans/#:~:text=BLUE%20CYCLE%20JEANS%20significantly%20reduces,generally%20improving%20the%20work%20environment.

[4] https://www2.hm.com/en_us/sustainability-at-hm/our-work/close-the-loop.html

[5] https://www.ftc.gov/sites/default/files/attachments/press-releases/ftc-issues-revised-green-guides/greenguides.pdf

The following summary provides a short overview of the requirements and prohibitions in § 5 of the FTC Act and California S.B. 343, one of the more stringent state laws on recyclability claims, the potential liabilities associated therewith, and an overview of steps fashion brands can take to reduce the risk of potential liability and associated costs.

We start with the black letter of the law:

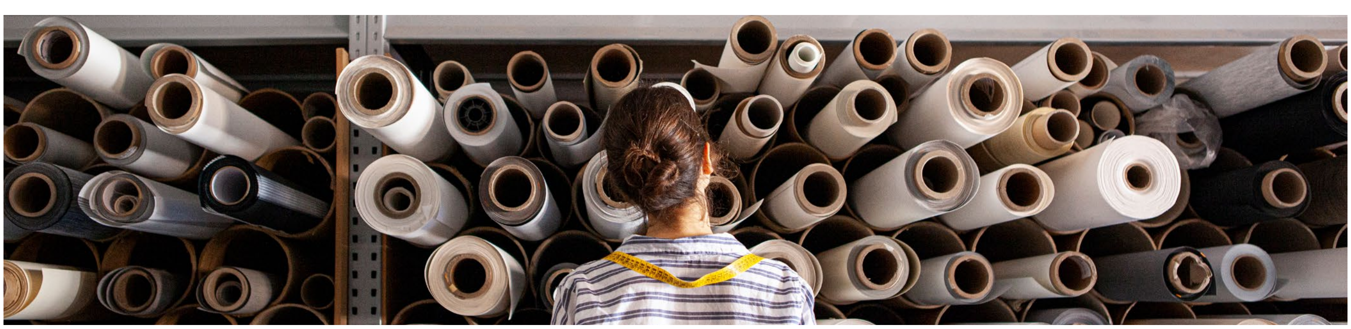
FTC Act § 5

Section 5 of the FTC Act (codified at 15 U.S.C. § 45) prohibits "unfair or deceptive acts or practices in or affecting commerce." 15 U.S.C. § 45(a). The Federal Trade Commission (FTC) considers claims that consumer products or packaging are recyclable to be "deceptive" if they "misrepresent, <u>directly or by implication</u>, that a product or package is recyclable" (emphasis added) 16 C.F.R. §§ 260.1(a), 260.12(a). As such, even if a recyclability claim on a garment or packaging does not *directly* misrepresent the recyclability of the product, at least one court has held that it may still be deceptive in violation of § 5 of the FTC Act, if a reasonable person reviewing the recyclability claim would believe that the product/packaging is recyclable when it is not. *See, e.g. Downing v. Keurig Green Mountain, Inc.*, 1:20-cv-11673-IT, 2021 WL 2403811 at *6 (D. Mass. Jun. 11, 2021) (finding that Plaintiff "plausibly asserted that a reasonable consumer viewing the recycling claim on the Pods would have believed that the Pods were recyclable," despite a warning to check locally whether the Pods were recyclable, and explaining that "'[R]easonable consumers [are not] expected to look beyond misleading representations on the front of the [container] to discover the truth from the ingredient list in small print on the side of it. 306 F. Supp. 3d 441, 462 (D. Mass. 2018)."); and *see Smith v. Keurig Green Mountain, Inc. (Keurig), 393 F.Supp.3d 837 (2019).*

At least one court has held that the company advertising or marketing the recyclability of the product or packaging need not *know* that the claim misrepresents the product's or packaging's recyclability nor that that the claim *could* be interpreted to misrepresent the recyclability of the product/ packaging, for there to be the potential for violations. Though the FTC Act does not provide a private right of action, there is a growing trend of consumers (likely driven by entrepreneurial plaintiffs' law firms) filing civil actions against fashion brands under state consumer protection statutes alleging misrepresentations about the environmental benefits or recyclability of the product can be *implied* from the claims made. Therefore, fashion brands should take steps to: (1) ensure all claims accurately reflect the recyclability of the product/packaging, and (2) assess and consider potential ways recyclability claims on packaging may be misread.

One way to ensure claims accurately reflect the recyclability or environmental benefits of a product or packaging is to add qualifiers where necessary. For example, "[a] product or package should not be marketed as recyclable unless it can be collected, separated, or otherwise recovered from the waste stream through an established recycling program for reuse or use in manufacturing or assembling another item." 16 C.F.R. § 260.12(a). As such, fashion brands should not make an unqualified claim that a product/ packaging is recyclable unless:

- Recycling facilities are available to at least 60% of consumers or communities where the items are sold; and
- "[T]he entire product or package, excluding minor incidental components, is recyclable."



Id. at § 260.12(b)-(c). If fashion brands cannot make unqualified claims of recyclability, then they should "clearly and prominently" qualify the recyclability claims on the packaging/products. *Id*. at § 260.12(b)-(c). Products for which "any component significantly limits the ability to recycle the item," or that are "made from recyclable material, but, because of its shape, size, or some other attribute, [are] not accepted in recycling programs," should not be marketed as recyclable. *Id*. at § 260.12(d). Improperly marketing such products as recyclable is potentially deceptive, leading to greater risk of greenxtortion and greenwashing claims and regulatory enforcement actions. *Id*.

Failure to comply with the FTC Act could result in the initiation of enforcement proceedings by the FTC and civil penalties of up to US$51,744 per violation. 15 U.S.C. §45(m)(1)(B). Each individual product or package could be considered a violation.

The FTC Act does not provide a private right of action, meaning a plaintiff cannot sue under the Act. But, that does not prevent private plaintiffs from filing suit alleging violations of consumer protection statutes. These and other "greenwashing" allegations related to allegedly false or misleading statements about the environmental benefits of products, packaging, or practices are oftentimes facilitated by plaintiff's counsel who scourer the marketplace for products sold by well-known brands that make sustainability and/or environmental claims. The counsel then engage a "consumer" to make a purchase (typically online) of the purported offending product. Thereafter, plaintiff's counsel drafts a complaint wherein the shill consumer alleges that they were harmed by the misleading or false claims, whether express or implied, in violation of various state consumer protection statues. Plaintiff's counsel sends these complaints to the brand owner along with a demand letter that invariably threatens civil suit and conversion of the suit into a class action, which would increase the potential monetary liability to fashion brands significantly. The hope of plaintiff's counsel is often to reach a quick monetary settlement with the brand and move on.

These greenwashing suits are becoming more prevalent, thereby increasing the risks to brand owners of making sustainability and environmental claims. Greenwashing claims often, for example, directly attack the product or packaging itself alleging that consumers would not

have purchased the product (or would not have paid a "premium price") had they known the products or packaging were only recyclable at certain types of facilities. Other greenwashing claims, for example, attack the company or brand more generally, alleging for example that a company's claims that a product is sustainable because it is made from recycled materials are misleading because the product is produced "in a high-emitting factory that pollutes the air and nearby waterways."[6]

California S.B. 343

California S.B. 343, codified in part as Cal. Bus. & Prof. Code §§ 17580, 17580.5 and Cal. Pub. Resource Code § 42355.51, includes two prohibitions related to deceptive or misleading recyclability claims:

1. *Cal. Bus. & Prof. Code § 17580.5* prohibits the making of "untruthful, deceptive, or misleading" claims of recyclability, whether explicit or implied. Cal. Bus. & Prof. Code § 17580.5(a). For purposes of this prohibition, a recyclability claim is untruthful, deceptive, or misleading if:
   a. The claim does not comply with the guidance published in the "Guides for the Use of Environmental Marketing Claims," codified at 16 C.F.R. Part 260 (FTC Act discussed above) (Cal. Bus. & Prof. Code § 17580.5(a)); or

   b. A product or packaging includes a recyclability claim (such as the chasing arrow symbol) when the product/packaging is not recyclable in California or is not "of a material type and form that routinely becomes feedstock used in the production of new products or packaging," unless an exception applies. Cal. Pub. Resource Code § 42355.51(b). A product or package is generally recyclable in California and of a material type and form that routinely becomes feedstock used in the production of new products or packaging if it is identified in CalRecycle's Material Characterization Study and/or meets certain other stated criteria. Cal. Pub. Resource Code § 42355.51(d).

2. *Cal. Pub. Resource Code § 42355.51* further prohibits the offering for sale, selling, distribution, or import into the state of California of "any product or packaging for which a deceptive or misleading claim about the recyclability of the product or packaging is made." Cal. Pub. Resource Code § 42355.51(a)-(b). For purposes of this prohibition, a deceptive or misleading claim about the recyclability of the product or packaging is made when products and packaging include indications of recyclability but the products/packaging are not recyclable in California or are not "of a material type and form that routinely becomes feedstock used in the production of new products or packaging," unless an exception applies. Cal. Pub. Resource Code § 42355.51(b). A product or package is generally recyclable in California and of a material type and form that routinely becomes feedstock used in the production of new products or packaging if it is identified in CalRecycle's Material Characterization Study, and/or meets certain other stated criteria. Cal. Pub. Resource Code § 42355.51(d).

CalRecycle's Material Characterization Study must be updated every five years. Therefore, it is important to: (1) assess each package and product individually, concurrently with CalRecycle's updates (i.e., every five years), to determine recyclability in the State of California, and (2) make appropriate qualifications as to recyclability as necessary.

[6] *See, e.g.* https://www.un.org/en/climatechange/science/climate-issues/greenwashing#:~:text=By%20misleading%20the%20public%20to,some%20more%20obvious%20than%20others.

California S.B. 343 further requires that manufacturers, including fashion brands, “who represent in advertising or on the label or container of a consumer good” that the consumer good is recyclable, must maintain and provide to members of the public upon request, the following written records and documentation “supporting the validity of the representation”:

- “The reasons the person believes the representation to be true,”
- “Any significant adverse environmental impacts directly associated with the production, distribution, use, and disposal of the consumer good,”
- Any measures taken to reduce “the environmental impacts directly associated with the production, distribution, and disposal of the consumer good,”
- “Violations of any federal, state, or local permits directly associated with the production or distribution of the consumer good,”
- Whether “the consumer good conforms with the uniform standards contained in the Federal Trade Commission Guidelines for Environmental Marketing Claims for the use of the term[ ] . . . ‘recyclable’. . . ,” and
- “[W]hether the consumer good meets all of the criteria for statewide recyclability.”

  Cal. Bus. & Prof. Code § 17580(a)-(b), (d).

While “consumer good” is not defined, garments and their packaging are likely consumer goods. Therefore, the Fashion Industry should take affirmative steps to comply with these records retention and documentation requirements if it intends to advertise recyclability or other environmental claims.

Failure to comply with the requirements and prohibitions in Cal. Bus. & Prof. Code §§ 17580, 17580.5 “is a misdemeanor punishable by imprisonment in the county jail not to exceed six months, or by a fine not to exceed [$2,500], or both,” and further risks the initiation of private civil litigation from consumers. Cal. Bus. & Prof. Code § 17581; and *see, e.g.*, *White v. Kroger*, 21-cv-08004-RS, 2022 WL 888657 at *2 (N.D. Cal. Mar. 25, 2022)(denying a motion to dismiss a complaint filed by a consumer alleging a violation of Cal. Bus. & Prof. Code § 17580.5 despite the fact that “neither the FTC guides nor the California statute directly creates a private cause of action”). We are not aware of any criminal prosecutions leading to imprisonment under these sections, though this law is still relatively young.

Failure to comply with the prohibitions in Cal. Pub. Resource Code § 42355.51 could result in the imposition by a city, county, or the state of civil liability in the amount of $500 for the first violation, $1,000 for the second violation, and $2,000 for the third and any subsequent violation. Cal. Pub. Resource Code § 42358.

Possible Risk Reduction Steps

Historically, the risks associated with recyclability claims have been relatively low, as evidenced by the limited case law available on this topic. However, the potential penalties and liabilities for violations of the FTC Act, state laws such as California S.B. 343 requirements, and other prohibitions related to recyclability claims could become substantial. And despite a growing industry of companies that offer outsourced determinations on the recyclability of products, the outsourcing of such determinations does not, in general, negate fashion brands’ risks of potential liability under these laws.

Therefore, when also considering the increasing trend for consumer litigation targeting recyclability claims, it becomes increasingly important for fashion brands to take affirmative steps to ensure any recyclability claims made are accurate, even when outsourcing such determinations to entities that specialize in making them. Fashion brands should also consider whether any recyclability claims made on their products or packaging could be misinterpreted or misconstrued and provide qualifications to clarify the recyclability of the products/packaging where necessary. Err on the side of caution.

A recyclability and advertising compliance program can help fashion brands limit the risks associated with marketing the recyclability of their products and packaging. Putting processes and procedures in place to ensure all products and packaging are assessed for recyclability when first introduced as well as to reevaluate those claims when changes are made to the products and packaging, or applicable law, can reduce risks of potential liability. In addition to putting in place such compliance programs, fashion brands can reduce the risk of potential liability by:

- Documenting the basis for asserting recyclability claims, or if outsourcing such determinations, requesting documentation to support the determination that the packaging/product is recyclable;
- Independently assessing the voracity of any outsourced recyclability determinations;
- Documenting and maintaining records as required by Cal. Bus. & Prof. Code § 17580(a), if doing business and asserting recyclability claims in California; and
- Implementing compliance processes and procedures to *reassess* the recyclability of all packaging and products at least every five years, upon CalRecycle's publishing of the Material Characterization Study. *See, e.g.* Dec. 2023 S.B. 343 Material Characterization Study (available at: https://www2.calrecycle.ca.gov/Publications/Details/1729).

Upcycling and Trademark Law: Navigating the Legal Landscape

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In recent years, upcycling has surged in popularity as a sustainable practice that promotes creativity and environmental responsibility. However, as individuals and businesses engage in the upcycling of branded products, they face a complex legal landscape, especially concerning trademark issues and the likelihood of confusion.

Understanding Upcycling and Its Legal Challenges

Upcycling involves taking existing products or materials and repurposing them into new items — ideally of higher quality or value. This practice often involves the use of branded products, such as clothing, accessories, or parts thereof. While upcycling is praised for its creativity, it raises legal issues, particularly in the realm of trademark law.

Trademark law protects brand owners by granting them exclusive rights to use their trademarks in commerce.[1] Specifically, the Lanham Act, the core federal trademark statute, defines a trademark as follows: "[A]ny word, name, symbol, or device, or any combination thereof" that a person uses "to identify and distinguish his or her goods ... from those manufactured or sold by others and to indicate the source of the goods."[2] When individuals or businesses upcycle branded products, the final products may infringe on these trademark rights, leading to legal disputes. One of the key issues in such cases is the likelihood of confusion.[3]

Likelihood of Confusion in Upcycling Cases

Likelihood of confusion is a central concept in trademark law, referring to the likelihood that consumers will be confused about the source or sponsorship of a product, or the affiliation between two entities. A trademark "quickly and easily assures a potential customer that this item — the item with this mark — is made by the same producer as other similarly marked items that he or she liked (or disliked) in the past."[4] Brands that produce quality products traditionally derive significant value from their trademarks. Their marks ensure that the producer, rather than an imitating entity, receives the financial rewards and goodwill linked to the brand's positive reputation.[5] In the context of upcycling, likelihood of confusion arises when consumers may mistakenly believe that the upcycled product is affiliated with, licensed, or endorsed by the original brand owner.

To determine likelihood of confusion, courts consider various factors, including the similarity of the marks, the relatedness of the goods or services, the strength of the plaintiff's mark, and the likelihood of consumer

1 Trademark Act of 1946 (the "Lanham Act"), 15 U.S.C. 1051 et seq.

2 15 U.S.C. § 1127; *Jack Daniel's Properties, Inc. v. VIP Products LLC*, 599 U.S. 140, 145 (2023).

3 Because upcycling typically involves materially altering a good, this article does not discuss the First Sale Doctrine of trademark law.

4 *Jack Daniel's Properties, Inc. v. VIP Products LLC*, 599 U.S. 140, 145 (2023) (quoting *Qualitex Co. v. Jacobson Products Co.*, 514 U.S. 159, 164, 115 S.Ct. 1300, 131 L.Ed.2d 248 (1995)).

5 *See Jack Daniel's Properties, Inc. v. VIP Products LLC,* 599 U.S. 140, 146 (2023).

confusion.[6,7] Courts also consider whether the defendant acted in good faith or intended to deceive consumers.

Upcycling Cases in Federal Courts

As an example of the costs associated with upcycling — even if disputed — in violation of trademark law, in February 2021, Louis Vuitton Malletier S.A.S. (LV), the luxury fashion house and retail company known for its high-end, stylish handbags, luggage, and accessories sued an entity for trademark infringement.[8] LV claimed that the Defendants' products were manufactured from material obtained from "purportedly authentic pre-owned," disassembled and deconstructed LV items, which bore the LV's Trademarks as well as "purportedly authentic pre-owned" LV items that had been fundamentally altered but continued to bear the LV trademarks."[9] The case settled prior to the Court reaching an ultimate issues of the case. Although the full terms of the settlement are not known, per the Court's record, Defendants offered US$603,000 to settle the dispute.[10]

In November 2023, LV also filed a separate case against another entity, seeking to stop the entity's sale of upcycled items made with materials from used LV products.[11] In January, the Defendants moved to dismiss LV's claims on the ground that LV had been aware of the Defendants' alleged acts of infringement for years, because LV had sent it a cease and desist letter addressing the same concerns four years prior.[12] Defendants assert that due to the delay, LV should be precluded from pursing the lawsuit.[13] The court has not yet ruled on the Defendant's motion. However, a ruling in either direction will likely be significant for entities seeking to prevent their products from being upcycled. We expect the court may also address Defendant's waiver allegations.

Although these two cases are more recent, similar cases have been pursued by entities seeking to protect their trademarks for years. In 2014, Harley Davidson initiated litigation against Urban Outfitters alleging that its Urban Renewal brand was violating Harley Davidson's trademarks after it had bought shirts and jackets with Harley Davidson's logos and "reconstructed" or altered the clothing by cutting off sleeves and necklines, shredding the bottoms of shirts, and removing the Harley labels.[14] The parties ultimately settled with Urban Outfitters agreeing to cease selling altered or reconstructed Harley Davidson apparel.

6 *See generally* 4 McCarthy on Trademarks and Unfair Competition § 24:30 (5th ed.).

7 Because the lists of factors used by various circuit courts can involve different factors depending on your jurisdiction, if you are considering pursuing a trademark infringement claim, please contact Foley & Lardner to further discuss the issues, including any jurisdictional-specific issues.

8 *Louis Vuitton Malletier S.A.S. v. Sandra Ling Designs, Inc.*, No. 4:21-CV-352, 2021 WL 3742024, at *1 (S.D. Tex. Aug. 24, 2021).

9 *Id.*

10 *Id.* at Dkt. 63 (Notice of Acceptance of Offer of Judgment by Louis Vuitton).

11 *Louis Vuitton Malletier SAS v. Keep It Gypsy Inc et al.*, No. 3:23-cv-02569 (N.D. Tex.).

12 *Id. at Dkt. 17* (Motion to Dismiss for Failure to State a Claim).

13 Id. at Dkt. 17 (Motion to Dismiss for Failure to State a Claim).

14 H-D USA LLC v. Urban Outfitters Inc., No. 14-cv-298 (E.D. Wis. June 5, 2014).

Avenues For Entities Discovering Upcycled Products

For entities fearful of trademark infringement arising from upcycled products, there are multiple avenues they can pursue to remediate such infringement. Usually, the first step is sending a cease and desist letter demanding the infringing entity stop using the trademark in question. Next steps can include, but are not limited to, trademark opposition or cancellation proceedings if the alleged infringer has filed a trademark application for the same or a similar mark, or if other options fail, a trademark infringement lawsuit, such as the instances described above.

In the alternative of trying to end the upcycling activity, however, an entity could also undergo negotiations and seek to enter into a license agreement with the upcycling person or entity. A similar licensing agreement appeared to recently have been entered into earlier this year between the National Football League (NFL) and Kristin Juszczyk, after she released multiple potentially upcycled products that included apparel with the NFL logo — most notably worn by Taylor Swift.[15]

Pursuing a license or other agreement with an allegedly infringing entity may be the most desirable avenue for entities that do not necessarily want to stop the infringing upcycling activity, but would instead like to profit or otherwise benefit from it. License agreements with royalty payments/terms or joint development/marketing agreements can be used to control the sale of upcycled products, while keeping the original brand owners satisfied that their brand continues to live on, remain relevant, and attract a newer following. However, brands considering license agreements should carefully choose which upcycling entities they would like to allow to use their trademarks to avoid potential dilution of those trademarks and reputational harm to their brand.

Trademark dilution can occur when a brand's trademarks are used in connection with inferior or low-quality products, which can harm the brand's reputation by reducing consumers' desire to purchase the brand's products. To protect against trademark dilution, brands can include contractual protections in the license agreement requiring the licensee (here, the upcycling entity) to adhere to the brand's trademark guidelines. Brands can also contractually prohibit the upcycling entity from selling products unless the brand has had the opportunity to approve such products first. Brands should strongly consider including these and similar contractual protections in license agreements to ensure they can oversee and control the use of their trademarks in upcycled products to prevent negative impacts to the goodwill they have built with their brand. As upcycling is expected to continue growing in popularity, entities may wish to consider both offensive and defensive measures to protect their brand's goodwill and reputation, as well as continuing to monitor the marketplace for potentially infringing goods.

[15] *See* Ruth La Ferla, *Crafty WAG Inks N.F.L. Deal*, The New York Times, (Feb. 2, 2024 updated Feb. 5, 2024) https://www.nytimes.com/2024/02/02/style/kristin-juszczyk-nfl-fashion-news.html.

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Who is Walking the Runway: Fashion Models or AI?

What is AI?

Artificial intelligence (AI) is the term used to describe technologies that use computers and software to think like and mimic human behavior. These days, AI is frequently in current headlines, although it is not a new concept. AI has been around since the 1950s. Since then, AI research continues to evolve. There are various subfields of AI, such as Generative AI, which has been gaining recognition since late 2022. This term is used to refer to "deep-learning models that can generate high-quality text, images, and other content based on the data they were trained on."[1] Generative AI tools have been used in a variety of industries, like the fashion industry.

AI in the Fashion Industry — Diversity and Inclusion

Generative AI tools such as DALL-E 2, Midjourney, and Stable Diffusion are increasingly being used to produce static 2-D images, with new applications like Runway capable of video output. These advancements promise various benefits to the fashion industry, including reduced costs, optimized inventory management and pricing strategy, improved analysis of customer preferences, and enhanced design and creativity. Additionally, there have been various proposed use cases involving generative AI across the fashion value chain, such as in the fields of merchandising and product, supply chain and logistics, marketing, digital commerce and consumer experience, store operations, and organization and support functions.[2]

Will AI Replace Human Fashion Models?

This question has been buzzing around the modeling industry. Some fashion models and consumers are concerned with the overall effect AI could have on the modeling world. For example, what would you do if you were a fashion model who walked a runway, but later found out your face was replaced with an AI-generated face? This is what happened to Shereen Wu.

A recent incident involving Taiwanese-American runway model Shereen Wu has sparked conversations about the ethical use of AI in the fashion industry. Wu alleged that a well-known fashion designer replaced her face during a recent Los Angeles fashion show with an AI-generated one to make her appear more Caucasian. Specifically, Wu alleged that fashion designer and Project Runway alum Michael Costello posted an Instagram photo after a Los Angeles fashion show in which Shereen's face was edited out and replaced with an AI-generated one — from Asian to White. In response, Shereen posted a TikTok video to share her thoughts and concerns, questioning Costello's motives; the video has since generated over one million views. Costello received backlash and negative headlines due to these allegations. He disputed Wu's claims, arguing he reached out to her on numerous occasions with no success, and that neither he nor his editing team edited any of the videos/images. This dispute has raised both misappropriation and moral dilemmas.

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1 Kim Martineau, *What is generative AI?*, IBM (Apr. 20, 2023).

2 *See* Holger Harreis et al., *Generative AI: Unlocking the future of fashion*, McKinsey & Co. (Mar. 8, 2023).

Use of AI in e-commerce channels and commercial modeling are on the rise. Approximately 73% of fashion executives expect to make generative AI a priority this year as a means of assisting in the creative process, such as design and product development. However, many businesses remain hesitant. Certain companies like Levi Strauss have begun using generative AI to display more diversity on e-commerce channels. In March 2023, Levi Strauss announced in a press release its partnership with digital fashion studio Lalaland.ai to generate diverse AI models. The company stated this partnership would assist in "supplementing models" and "creating a more personal and inclusive shopping experience" for consumers.[3] After this press release, Levi Strauss received backlash from the fashion industry, due in part to the idea that the use of AI would replace humans and blur the line between "true" representation versus "manufactured." Additionally, critics argued Levi Strauss was not authentically addressing the issue of representation in the fashion industry or lack thereof. Rather, Levi Strauss was taking a shortcut to save on costs — avoiding the need to hire human models and securing stylists or makeup artists. In response to the backlash, Levi Strauss released a clarifying statement that its use of AI was not its entire approach toward diversity, equity, and inclusion (DEI) goals. Despite Levi Strauss's statement, models and consumers expressed concern with how companies are using AI-generated models to "increase diversity," as some say this is not an organic way to tackle the issue of diversity.

When Levi Strauss made its initial comments, models of color expressed concerns that they already are not booking as many casting or booking opportunities as their counterparts. Commentators assert that the use of AI is essentially perpetuating inequality because it is only creating an illusion of diversity, when in reality, the fashion industry as a whole has been dealing with the issue of diversity for many years. Following the social unrest in the summer of 2020, fashion companies and brands developed initiatives to improve their DEI efforts, including more diverse hiring practices and marketing/advertising campaigns. However, there has been skepticism that nothing has really changed.

This skepticism, coupled with the growing unease of AI replacing human models altogether, has increased concern for models of color who are not comfortable with fashion companies and brands that claim to use AI to increase diversity.

The use of AI fashion models can also reduce costs associated with photography shoots and fittings, and these savings are proving attractive to fashion brands, companies, and agencies. With AI generated models, there is no need to pay location fees for photoshoots, time spent finding a location, model fees for trying on clothes, or fees for photographers at all. However, industry experts believe there should be a balance between brands and companies using generative AI to promote efficiency and reduce costs while also enhancing consumer satisfaction, making AI more inclusive for all, and tackling the issue of diversity.

As an example, The Diigitals, an AI and 3D modeling company, collaborated with Down Syndrome International (DSI) and creative agency Forsman & Bodenfors, to create Kami, an AI-generated virtual influencer who displays physical features associated with Down syndrome. According to Diigitals, "the purpose of creating Kami was to celebrate and promote diversity within the metaverse, showcasing the incredible talents and capabilities of individuals with Down syndrome."[4] Kami won three awards at the Cannes Lions Festival of Creativity, attributed to the creativity and initiative behind the collaboration. Various young women with Down syndrome from different countries volunteered to assist in the creation of Kami, allowing Diigitals to create an authentic AI-generated individual with Down syndrome. For many, the creation of Kami has been seen as empowering individuals with Down syndrome, allowing them to feel acknowledged in a world that often casts these individuals as outliers. Kami's mission is to invite fashion brands and communities to change the digital space, making it a more inclusive and amiable space for people living with Down syndrome.

3 *See* Statement, Levi Strauss & Co., *LS&Co. Partners with Lalaland.ai*, Levi Strauss & Co. (Mar. 22, 2023).

4 Makena Rasmussen, *Kami is the First Virtual Influencer with Down Syndrome*, Virtual Humans (May 24, 2022).

Addressing Bias

Given criticism over the past decades that the modeling industry does not accurately represent and include members from underrepresented groups, the use of AI has raised additional concerns, particularly algorithmic bias. Algorithmic bias is the "systematic and replicable errors in computer systems that lead to unequal[ity] and discrimination based on legally protected characteristics, such as race and gender."[5] Dr. Karima Ginena, a social scientist, conducted a recent test and found that when he prompted certain AI generators for images, "the programs almost always delivered a picture of a white person."[6] AI algorithms are trained on the information provided to them. If information is not entered in or is excluded, the result may not be representative. Subsequently, underrepresented models that have historically been excluded from castings, runway shows, or photoshoots would continue to be omitted. Broderick Turner, a Virginia Tech marketing professor, recommends there to not only be greater representation in AI data, but also in the individuals that are coding the data. This would allow for greater data input to be closely representative of the current demographic.

AI in the Beauty Industry

The beauty industry has also seen an increase in the use of generative AI. Currently, various beauty brands and companies use generative AI for skin diagnostics by way of Sephora's Color IQ matching technology, product effect simulations via Haut.AI's Skin GPT product, and interactive skin consultations from companies such as Galderma. With AI, consumers can try on lipstick colors, match foundation shades, experience various eyeshadow colors, and discover a go-to mascara, providing custom product recommendations and tailored shopping experiences. In turn, these AI-powered apps and services will continue to learn and gain insights into consumer preferences. Generative AI can recreate a makeup look or create a similar look based on how it decodes the look. It can also provide recommendations based on consumer input, utilizing past augmented reality virtual try-ons combined with user-uploaded images.

Even Lisa Eldridge, a world-renowned professional makeup artist and beauty expert, recently released a video showing how AI designed a makeup look for her. Although ChatGPT generated prompts for Lisa to follow, based on the information it was able to obtain about her years of experience as a makeup artist, it missed specific techniques that she uses. Eldridge ended her video expressing that she honestly does not know if AI will completely replace makeup artists, but her tutorial is an example of how creatives are able to use AI as a tool to assist in the beauty and makeup industry.

5 Maya C. Jackson, *Artificial Intelligence & Algorithmic Bias: The Issues With Technology Reflecting History & Humans*, J. Bus. Tech. Law (2021).

6 Dr. Karim Ginena, *Diversity is Critical for the Future of AI* (discussing how AI should be used, being mindful of its shortcomings) (last visited Feb. 19, 2022).

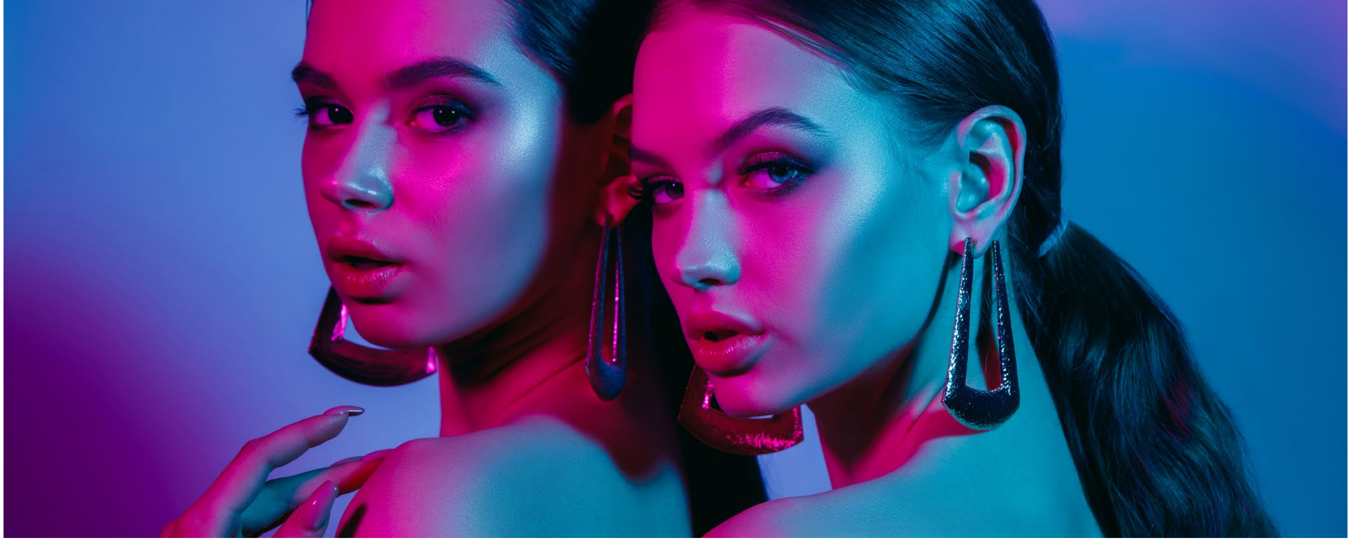
Based on a recent survey, about 29.6% of makeup artists are concerned AI will result in job displacement and loss of personalization.[7] Because generative AI can replicate and suggest makeup looks at much faster rates than human capabilities, makeup artists are hesitant about the continued progression of AI in this space. A 2023 Goldman Sachs report predicted that AI could disrupt approximately 300 million full-time jobs by reducing labor costs and increasing automation. Included in that number are the jobs of various kinds of artists, like makeup artists. If AI can generate makeup looks and provide the tools to do so, are makeup artists needed? What about the actual application? This is where makeup artists are still needed, as AI does not currently "apply" makeup. AI is not inherently creative and is limited in this way, as it only builds on data it is provided — a limiting factor, as previously noted above via Lisa Eldridge's tutorial.

Disclosure

Although not a legal requirement, disclosing which models are AI-generated on e-commerce channels would be one way for brands and companies to be transparent with consumers and models. On February 2, 2024, the EU unanimously approved the EU Artificial Intelligence Act (EU AI Act or Act) requiring, among other things, transparency — in disclosure of AI-generated content and its original content. These disclosure requirements apply to the use of AI and the people using it.

The EU AI Act is seen as revolutionary, as it is the first-ever legal framework addressing the risks of AI systems. This regulatory framework categorizes certain levels of risk for AI systems, placing them into four categories: (1) unacceptable risk; (2) high risk; (3) limited risk; and (4) minimal risk. For instance, providers of high-risk AI systems will have to undergo an assessment, complying with AI-specific requirements, including registration in an EU database. Further, the systems will bear a formal European Conformity (CE) marking and be placed in the marketplace, with any substantial changes that occur during the lifetime of the system requiring a new assessment each time. Penalties will be imposed for noncompliant AI systems.

[7] Professional Beauty, *Nearly 30% of make-up artists are concerned about job displacement from AI*, https://professionalbeauty.co.uk/site/newsdetails/nearly-30-of-make-up-artists-concerned-about-AI (Aug. 14, 2023).



Although the EU is the first to require such measures, other markets may soon follow this trend. The Act could impact the United States, serving as a blueprint (or at a minimum, guidance) for U.S. federal agencies to consider in assessing AI system deployments that may impact overall societal livelihood, *i.e.,* hiring practices, health care, or transportation. Federal agencies in the United States have noted that they seek to police AI systems, ensure responsible innovation, and provide enforcement efforts against discrimination and bias. Although the EU AI Act is the first to provide a comprehensive approach to regulating AI systems, other global laws are surely to come along to address AI risks.

Right of Publicity

Under most laws, fashion models are considered independent contractors and therefore unable to unionize to combat name, image, and likeness (NIL) issues, unlike actors or performers. Normally, models sign model releases, handing over certain rights and conditions about their individual NIL for commercial use. With the increased use of AI and how it uses data received to create an output, AI could essentially generate the faces of many models without their consent. However, the Model Alliance's Fashion Workers Act seeks to address this issue by prohibiting model management companies from, among other things, "creating, altering, or manipulating a model's digital replica using artificial intelligence without clear, conspicuous[,] and separate written consent from the model."[8] This legislation appears to be a step in the right direction towards providing models with labor protections, in addition to protection against AI.

Copyright Considerations

Copyright concerns are rising as fashion designers and creatives begin to experiment with using AI to generate designs and details, such as fabrics, colors, and patterns. But under U.S. law, copyright only protects non-functional creative elements. In 2023, the U.S. Copyright Office noted there are circumstances in which works containing AI-generated material will contain "sufficient human authorship" to qualify for copyright protection. That said, it is unclear whether AI-generated fashion designs are protected.

The Copendium of U.S. Copyright Office Practices provides guidance on who is deemed an "author": "[t]he U.S. Copyright Office will register an original work of authorship, provided that the work was created by a human being," and "works produced by a machine or mere mechanical process that operates randomly or automatically without any creative input or intervention from a human author" are not registrable.[9] Although the Copendium does not fully account for current and future uses of AI-generated fashion designs/patterns, there have been various cases involving AI-generated art and copyright.

For example, in 2023 the U.S. Copyright Office ruled an award-winning AI-generated piece of art, *Théâtre D'opéra Spatial*, did not qualify for copyright protection. Matthew Allen, the artist behind the AI-generated art, used Midjourney, a generative AI program, to create his work of art. Ultimately, the Copyright Office concluded copyright protections are not extended to AI but parts of the work that Allen modified with Adobe amounted to an original work. However, the other parts of the art that were generated solely by AI could not be copyrighted.

8 S.2477B (Hoylman)/A.5631B (Reyes) (2023).

9 U.S. Copyright Office, Compendium of U.S. Copyright Office Practices § 101 (3d ed. 2021).

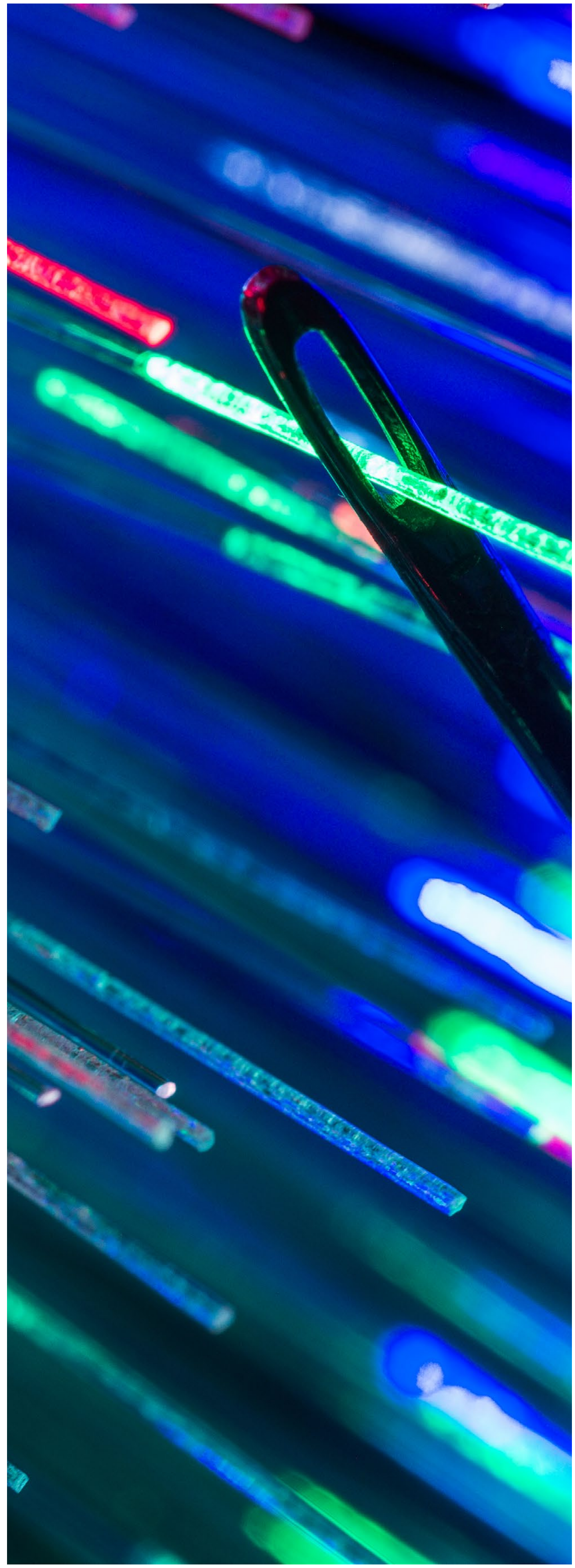
Separately, in *Thaler v. Perlmutter*, the District Court for the District of Columbia ruled Thaler's AI-generated work of visual art was not copyrightable based on the Copyright Act's plain language that for an original work of authorship to be copyrightable, the author must be a human.[10] Thaler created a piece of visual art via DABUS (an AI system Thaler created) without any human input. Earlier this year, Thaler appealed to the U.S. Court of Appeals for the District of Columbia Circuit, arguing creative works generated by AI should be afforded copyright protection.[11] There has yet to be a final ruling.

Meanwhile, there have been lawsuits focused on AI art generators, original copyright holders, and fair use. For example, in *Getty Images v. Stability AI*, Getty Images alleged that Stability AI, an AI art generator, copied its images to train its AI model without permission.[12] There has yet to be a ruling; however, the court will surely analyze and consider the U.S. Fair Use Doctrine to determine whether use on the part of Stability AI was fair.

What Does This All Mean?

With all the current concerns and questions that are prevalent about AI and its effects on the fashion and beauty industries, fashion leaders, companies, agencies, and executives should ensure they are maximizing and balancing AI's perceived positives, such as cost reductions, enhancing efficiency, and providing personalized consumer experiences, while minimizing its perceived negatives, such as algorithmic biases and potential job displacement. Clearly AI is here to stay and will continue to revolutionize the fashion industry.

Fashion companies and brands should look at AI as an asset and means of unlocking future opportunities to propel business forward. Meanwhile, models, designers, and creatives should look at AI through the lens of a collaborative approach with brands, knowing that they are an essential component in the industry bringing such things as authenticity, genuine emotion, personal experiences, and character to the table. In combination, this will assist in creating an overall enhanced and improved consumer experience.



[10] Thaler v. Perlmutter, 1:22-cv-01564, (D.D.C.) (2022).

[11] Thaler v. Perlmutter, 23-5233, (D.C. Cir.) (2023).

[12] Getty Images (US), Inc. v. Stability AI, Inc., 1:23-cv-00135, (D. Del.) (2023).

Brand Protection in the Age of Deepfake AI

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As artificial intelligence (AI) and related technologies rapidly evolve, the law must evolve with them. However, legislation is rarely passed quickly enough to keep up with technological advances. Deepfake AI is one of these technological advances that require more comprehensive laws relating to privacy and rights of publicity, but these laws — while in the beginning stages of contemplation — have not yet come to fruition. Deepfake AI is short for "deep learning, fake, artificial intelligence." It is a technology that uses extensive machine learning techniques to generate manipulated, hyper-realistic digital media, such as videos, pictures, and audio recordings. Deepfake AI has been used to create highly convincing, but false, videos and audio recordings of well-known and influential figures such as former President Barack Obama, Taylor Swift, Tom Hanks, and The Weeknd. This article explores how brand owners can best protect themselves in this burgeoning age of deepfake AI.

Understanding the Potential Impact of Deepfake AI on Brands

Concerningly for brand owners, deepfake AI has recently been used to create false advertisements, thereby exposing brand owners and influencers alike to allegations that they have engaged in illegal conduct. For example, Tom Hanks and YouTube personality MrBeast have been separately the subject of deepfake AI-generated advertisements that misappropriated their faces and voices in order to show them endorsing products like dental plans and smartphones. Most recently, Taylor Swift was the subject of explicit, deepfake AI-generated images that went viral on the internet, spurring lawmakers into action. The bipartisan *Disrupt Explicit Forged Images and Non-Consensual Edits Act of 2024* (DEFIANCE Act) was introduced shortly thereafter, which intends to provide a federal remedy for victims who are the subject of a deepfake depiction of them in non-consensual, sexually explicit media.

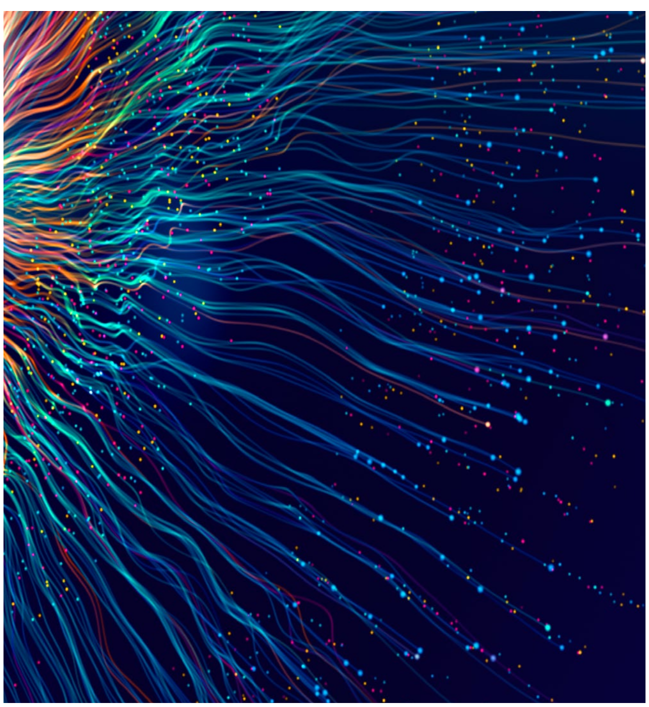
Announcing the bill, Senator Amy Klobuchar stated, "Our laws need to keep up with this quickly evolving technology. We must put in place rules of the road to protect people from having their voice and likeness replicated through AI without their permission."

While the DEFIANCE Act would provide protection for individuals who have had their likeness misappropriated in discrete circumstances, no legislation is currently pending that would protect brand owners who have either (i) had their trademarks or other source-identifiers infringed upon or misappropriated through the use of deepfake AI (such as through a false advertisement), or (ii) had the reputation of their brand damaged as a result of engaging a brand ambassador or influencer that is the victim of a deepfake AI attack. However, brand owners may be able to protect themselves through a combination of incorporating appropriate contractual provisions in their agreements with brand ambassadors, as well as through laws that are already in existence.

Contractual Provisions Offering Protection Against Deepfake AI

Brand owners may want to consider implementing appropriate contractual provisions in their marketing and collaboration agreements with brand ambassadors to protect against reputational harm caused by deepfake AI. These provisions could include a representation that the brand ambassador has not been the subject of any deepfake AI-generated media that could reflect negatively on the brand. Brands could also include an affirmative obligation requiring brand ambassadors to promptly take action against the creators of any such deepfakes (and platforms publishing such deepfakes) of which they become aware, or to grant permission to the brand owners to take such action on the brand ambassador's behalf.

Similar to moral turpitude clauses, brand owners may want to include a termination right that would permit the brand owner to terminate their agreement if the brand ambassador becomes the subject of a deepfake AI-generated depiction that the brand owner believes has the potential to harm its reputation and goodwill. However, brand owners will also want to consider the optics of terminating such an agreement when the creation and dissemination of the deepfake was not the brand ambassador's fault — particularly if the brand owner has otherwise had a positive and well-established relationship with the ambassador. In such a case, brand owners may want to exercise caution to avoid causing additional harm to their reputation in the eyes of the public and the brand ambassador that has been wronged. While remaining cognizant of the optics of enforcing some of these provisions, brand owners may want to consider implementing one or all of the foregoing contractual safeguards to protect themselves against reputational harm that may be caused by deepfake AI.



Protections and Remedies Under U.S. Law

Beyond contractual provisions to protect brands, some legal remedies currently available for brand owners that are victims of a deepfake are described below.

Federal Laws

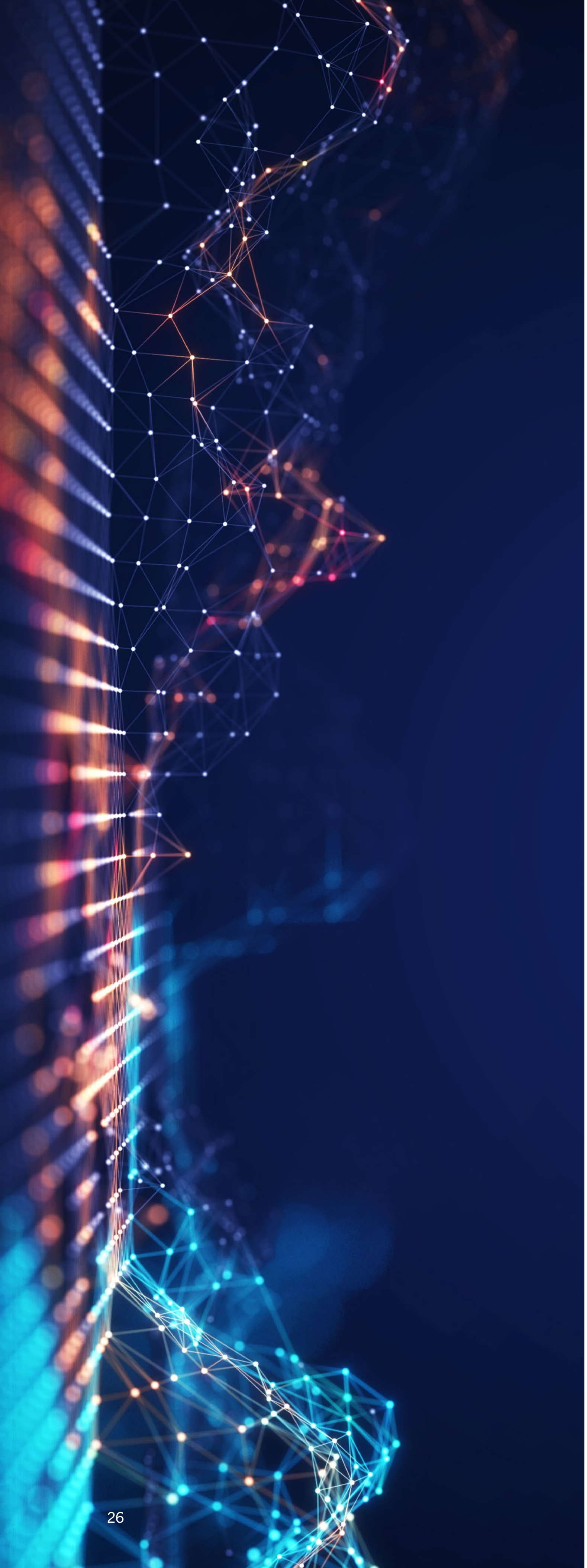
The Lanham Act (15 U.S.C. §§ 1051 *et seq.*) offers brands protection through unfair competition laws such as false advertising. Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) prohibits false advertising and false endorsements. Section 43(a)(1)(A) provides:

[A]ny person who, or in connection with any goods or services, uses any ... false or misleading representation of fact, which ... is likely to cause confusion, or to cause mistake, or deceive as to the affiliation, connection or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person ... shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

The Lanham Act was enacted by Congress in 1946 and contemplates remedies for traditional forms of unfair competition. Brands have been successful at bringing false advertising claims against infringers, but case law requires analyzing factors enumerated in case law that include:

1. Strength of the plaintiff's mark
2. Relatedness of the goods
3. Similarity of the marks
4. Evidence of actual confusion
5. Marketing channels used
6. Likely degree of purchaser care
7. Defendant's intent in selecting the mark
8. Likelihood of expansion of the product lines[1]

1 *AMF, Inc. v. Sleekcraft Boats*, 599 F.2d 341 (9th Cir.1979)



As a result, such unfair competition laws may not provide optimal protection from deepfakes because, for example, they consider evidence that may not be present when deepfakes are proliferated, such as relatedness of the brand and the accused infringer. However, no single factor is dispositive and evidence of actual confusion and the defendant's intent in selecting the mark are particularly applicable for preventing the proliferation of deepfakes.

State Laws

A right of publicity law is an intellectual property right that protects against the misappropriation of a person's name, likeness, or other indicia of personal identity — such as nickname, pseudonym, voice, signature, likeness, or photograph — for commercial benefit. While there are no federal statutes that recognize this right, several states have enacted right of publicity laws. Each of these differs in scope and scale of protection, and in some states brand owners may be able to sue the creators of deepfakes for violating their right of publicity, even though the brand owner is often an entity that does not have a "personal identity."

For example, in New York, courts have found that business entities have a right of publicity.[2] In *Bi-Rite Enters., Inc. v. Button Master*, a New York court found that certain music groups had developed a valuable identity and that there was no principled reason for denying a music group the right to protect its proprietary "persona" against the unfairness inherent in allowing another to exploit the same without just compensation.[3] However, in California, California Civil Code Section 3344 protects the right of publicity of only natural living persons rather than entities. Accordingly, the scale and scope of protections and remedies that brand owners may be able to obtain under these laws will vary by state, which is why brand owners should also consider proactively implementing contractual safeguards.

Conclusion

In response to the growing popularity of deepfake AI and other potentially harmful technologies, brand owners may want to utilize a combination of the above offensive and defensive strategies in order to prevent negative impacts to the goodwill they have built with their brand.

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[2] *Bi-Rite Enters., Inc. v. Button Master*, 555 F. Supp. 1188, 1199 & 1200 (S.D.N.Y. 1983).

[3] *Id.*

Luxury Resellers — A Marketplace Filled with Tricks or Treasures?

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Most people are familiar with the saying “one man’s trash is another man’s treasure.” This phrase generally elicits thoughts of an unwanted television or piece of furniture discarded on the side of the road waiting to be picked up by a lucky finder. However, if you substitute the television for a Vintage Chanel Classic Double Flap in Black Lambskin handbag and the road for an online reseller, then you’ve entered the world of the luxury resale market where gently used luxury items have been relinquished by their owners and are now available to consumers who have been waiting to get their hands on these — generally exclusive — goods.

The luxury resale market has grown substantially in recent years. In 2023, it reached an estimated value of almost US$40 billion, and its market value is projected to grow to US$52 billion by 2026.[1] We have seen various entities stake a claim in the luxury resale market over the years, including well-known resellers such as The Real Real, Vestaire Collective, Fashionphile, and ThredUp. These luxury resale websites initially enabled consumers to purchase gently used designer goods at discounted prices; however, more recently, luxury resellers have begun to capitalize on the demand and scarcity for certain designer goods by reselling these goods for amounts that far exceed the retail price.

Brand Protection Considerations

It comes as no surprise that the desire for designer goods keeps the luxury resale market afloat, and thus, luxury resellers use brands’ trademarks, images, and other information to market, advertise, and promote their second-hand designer goods. The problem, however, arises when a second-hand reseller misuses or pushes the limits on its use of a brand’s trademarks to the point where consumer confusion is likely to occur and/or when false or misleading claims cause consumers to believe that the luxury reseller is affiliated with, approved by, or authorized by the brand owner in some way.

The two doctrines of trademark law that are at the intersection of the tension between brand owners and luxury resellers are the First Sale Doctrine and Nominative Fair Use. Under the First Sale Doctrine, once a trademark owner has sold a genuine product, it no longer retains control over the subsequent distribution of that product, which in turn allows third parties to lawfully sell the product on the secondhand market. The doctrine of Nominative Fair Use, however, focuses less on the sale of a product and more on the advertising of goods and services. A defendant, under the doctrine of nominative fair use, is allowed to use a plaintiff’s trademark so long as such use does not cause a likelihood of confusion about the source of the defendant’s goods. These doctrines were invoked as defenses in the *Chanel, Inc. v. What Goes Around Comes Around, LLC* litigation and played center stage at the recent jury trial in the case. Ultimately, however, the Manhattan jury was not persuaded by these defenses.

[1] https://www.statista.com/statistics/1307612/market-value-luxury-resale-global/

Chanel, Inc. v. What Goes Around Comes Around, LLC, et. al. — A Case Study

As previewed in the "Cases to Watch in 2024" article, on February 6, 2024, a federal jury in the U.S. District Court for the Southern District of New York issued a unanimous verdict finding that What Goes Around Comes Around, LLC (WGACA) was liable to Chanel, Inc. for trademark infringement, false association, unfair competition, and false advertising. The jury awarded Chanel US$4 million in statutory damages.

The case began in 2018 when Chanel alleged that WGACA, a reseller of second-hand luxury goods, was using, without authorization, trademarks owned by Chanel online and in retail stores to advertise and sell counterfeit Chanel products, including products that Chanel had never sold to the public, such as a tissue box cover, trays, and mirrors. The suit additionally alleged that WGACA's statements with respect to its authentication of Chanel goods misled consumers into believing that the authenticity conclusions were verified by Chanel when they were not. According to Chanel, WGACA's actions were done in an effort to induce consumers into purchasing WGACA's goods and to mislead consumers into believing that WGACA had a relationship with Chanel when that was not the case.

At trial, additional details emerged regarding a 2012 theft at one of Chanel's major factories in Milan, Italy. During the theft, 30,000 serial stickers and authenticity cards were stolen, but many were later located during a counterfeit raid action, and Chanel subsequently voided the serial numbers within its internal database. Some serial numbers, however, were later found adhered to non-genuine Chanel goods, including 11 bags for sale by WGACA. Chanel claimed these bags were counterfeit because they were not subject to Chanel's quality control process or authorized for sale by Chanel and because the bags were not made by one of Chanel's authorized factories.

WGACA denied selling counterfeit goods and argued that it was entitled to sell Chanel goods under the First Sale Doctrine. WGACA also asserted the affirmative defense of Nominative Fair Use. While it is commonplace for secondhand retailers to assert and rely on these defenses, the jury in this case clearly found that WGACA's conduct far exceeded the limits of these legal defenses. The jury not only held WGACA liable for trademark infringement, false association, unfair competition, and false advertising, but also found that WGACA acted willfully, with reckless disregard, and with willful blindness in its conduct. After the verdict was issued, counsel for WGACA implied that WGACA intended to file post-verdict motions. In the meantime, Chanel has moved for entry of a permanent injunction against WGACA and is also pursuing other equitable remedies that were bifurcated from the jury phase of the trial, including disgorgement of WGACA's profits. This second next phase has been set for a bench trial on July 15, 2024. In sum, this case is not over quite yet.

Implications of the *Chanel* Verdict

While we have yet to see the major impacts of the *Chanel v. WGACA* verdict on the luxury resale industry as a whole, there are a few lessons to be learned. First, third-party resellers of luxury goods should reevaluate their marketing and advertising strategy to ensure that their claims do not suggest an affiliation or relationship with the brands of the products that they sell. This is especially the case if the reseller claims to authenticate the genuineness of the items they are selling. Resellers should also step-up their internal anti-counterfeiting efforts. If a reseller markets and sells fake products as the "real thing," even inadvertently, this fact will no doubt have an adverse effect on their entire sales model. Following the *Chanel v. WGACA* verdict, we can expect that brand owners will more closely scrutinize the use of their trademarks by luxury resellers, as well as their authenticity statements, to ensure that they do

not insinuate any type of adoption, or verification by the brand itself. Further, brand owners may look to create ways to gain some control of the secondhand luxury goods space by developing in-house resale marketplaces or even partnering with secondhand luxury resellers.

Steve Madden is an example of a brand who has developed its own in-house re-sale marketplace, SM REBOOTED, where consumers can sell pre-owned Steve Madden goods. Through SM REBOOTED, a consumer chooses which good(s) to sell, creates a product listing with a product description and desired price, and then submits it directly on the Steve Madden website. Steve Madden then reviews the product listing for accuracy, and if approved, the product listing is posted for sale directly on the Steve Madden website. Once the product is purchased and delivered, the seller then receives a credit which they can use to purchase new or pre-owned Steve Madden goods. This type of circular sales model is an effective way to promote brand loyalty, while also showcasing a brand's sustainability efforts.

Another brand that has embraced the resale market is Rolex through its "Rolex Certified Pre-Owned Watch Programme." The Rolex Certified Pre-Owned Watch Programme allows Official Jewelers of Rolex to sell pre-owned watches. Each of the certified pre-owned watches comes with a "pre-owned seal" that confirms its certification status, namely that it is authentic and functions properly. Each certified pre-owned watch also comes with an international two-year guarantee.

As an alternative, the *Chanel* verdict could cause a resurgence in partnerships between brand owners and luxury resellers. In 2020, Gucci and The Real Real partnered to create an online shop featuring pre-owned Gucci goods. Currently, a partnership between Burberry and Vestaire Collective enables consumers to sell their pre-owned Burberry wares, such as iconic trench coats and handbags on Vestaire Collective. The goods are reviewed and authenticated by Burberry experts, and if found to be authentic and acceptable, sellers receive a Burberry gift card.

While the effects of the *Chanel* verdict are not entirely clear yet, one thing for certain is that the luxury resale market is here to stay. Consumers' shifting attitudes towards circular fashion and sustainability will continue to drive the popularity of pre-owned luxury goods. As a result, both resellers and brand owners should examine their current practices to ensure they identify and enforce against counterfeits and misrepresentations. Resellers should redouble their internal policies to avoid liability, and brand owners should make sure their on-line enforcement policies are adequate and comprehensive enough to locate the infringing actors.

Royalties and License Fees: When Would They Be Dutiable Upon the Importation of Products into Mexico?

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We often hear about global companies, particularly those in the fashion, apparel, and beauty industry, as title holders of intellectual property rights such as trademarks, trade names, patents, and copyrights (IP rights) that grant licensing agreements to third parties, either related or not, to use these IP rights for the manufacture, distribution, and/or marketing of products exported from one country to be imported into another. These licensing agreements are usually subject to the payment of royalties or license fees upon the use of the IP rights.

Companies exporting and importing products to Mexico or other World Trade Organization (WTO) member countries must evaluate if, as part of a licensing agreement, royalties and license fees for the use of the IP rights to a product are dutiable where payment of these is required.

The Mexican Customs Law (MCL) establishes the taxable base of the import duties to be paid upon importing products into Mexico as the customs value of the products, which corresponds primarily to their transaction value[1]. The transaction value of the products under the MCL corresponds to the price paid[2] for the products, provided that the same are sold to be exported to Mexico through a purchase made by the importer.

The MCL provides that in addition to the price paid for the products, the transaction value must include the amount of certain additional charges, such as royalties or license fees, as long as they are not included in the price paid, to the extent that the following conditions are met: i) that the payment of royalties or licensing fees is related to the imported products; ii) that the importer has to pay them directly or indirectly as a condition of sale of the products; and iii) they are objective and quantifiable at the time of the importation of the products.

Related to the Imported Products

There are certain types of IP rights that are linked to goods or products, while there are other IP rights that are not necessarily linked to products. For instance, patents covering products or processes to manufacture products would be related to products, while trademarks covering services would not be associated to products.

In the event that a royalty or license fee is paid for the use of an IP right tied to a good or product, it is reasonable to consider that the fee paid would then be considered part of the total transaction value of the imported item. This meets the first condition of the MCL whereby certain additional charges, in this case royalties and licensing fees, are incremental of the transaction value of a good or product.

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[1] The MCL provides for the use of other methods of customs valuation when there is not a transaction involving the sale of products to be imported into Mexico as a consequence of a purchase made by the importer; such as: i) transaction value of identical goods; ii) transaction value of similar goods; iii) unit price; iv) computed value; and v) fallback /reasonable means.

[2] According to the MCL, the price paid is understood to be the total payment that the importer has made or will make for the imported goods directly or indirectly to the seller or for his benefit.

To compare, when a royalty or licensing fee is paid for the use of an IP right that is not related to a good or product, such as the use of a brand name to identify a commercial establishment or a company slogan for branding and marketing use in the country of import and distribution, the transaction value of the licensing agreement and additional charges will not carry a duty. In this case the IP right is specific to the use and distribution of a brand and the reputation it carries, not a tangible item, even though the IP right is meant for the primary purpose of promoting a good or product.

Likewise, when a contract stipulates that an IP right fee be paid for the authorized use of confidential information related to the development of a business, or its payment is for the provision of technical or administrative assistance services, then the payment of the fee is not related to a product and therefore should not increase the customs value of products to be imported. For example, if a cosmetics company requires to model their in-country business plan to those from their headquarters and will require technical services as part of the deployment of the strategy, the use of these resources and the IP rights associated with institutional knowledge and skills would not be dutiable.

Condition of Sale

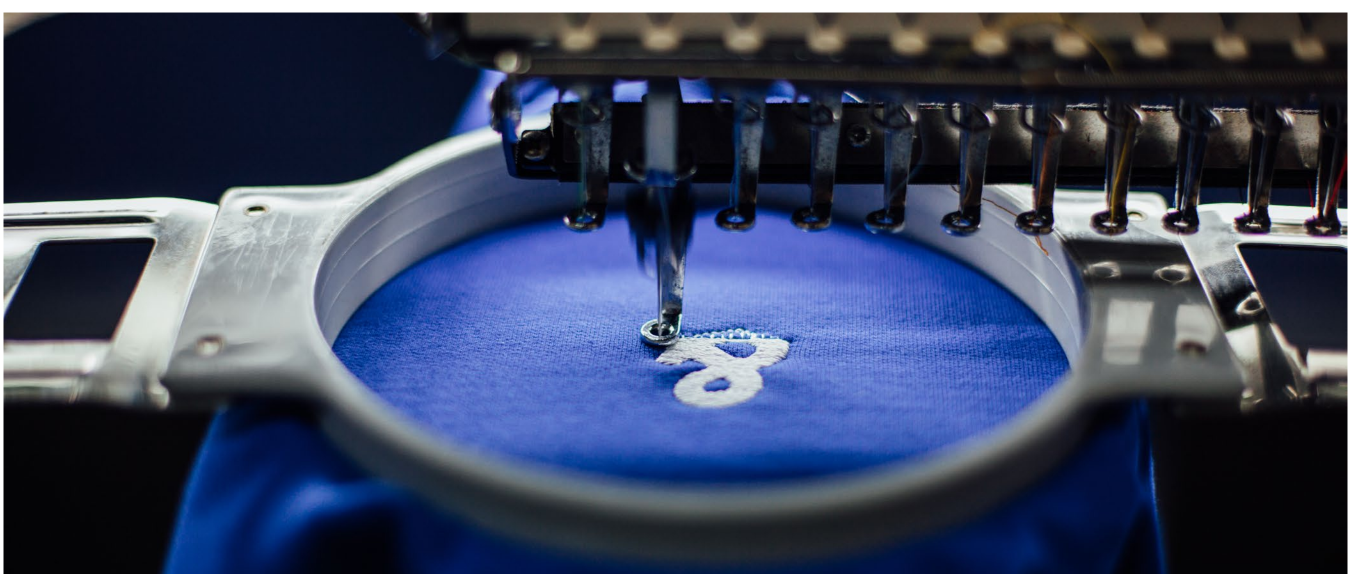
Condition of sale is the critical component, without which the purchase and sale operation would not exist. If the importer does not cover the payment of the royalty or license fee for the use of the IP right, the seller will not sell the products to be imported.

The Technical Committee on Customs Valuation of the World Customs Organization (WCO) spells this out. The WCO defines this and provides clarity on the concept of condition of sale stating, "The clearest indication that the buyer could not purchase the imported goods without paying the royalty or license fee is where the sales documentation for the imported goods includes an explicit statement that the buyer must pay the royalty or license fee as a condition of sale. Such a reference would be determinative in deciding whether a royalty or license fee was paid as a condition of sale."[3]

However, there could be cases where the seller is not the owner of the IP rights related to the products being imported. A condition of sale could exist when royalties or license fees are paid, directly or indirectly to third parties, whether related or not to the seller.

In other words, there could be cases where the importer is not required to pay the seller royalties or license fees to use an IP right, but instead to a third party (related or not), even though it will increase the transaction value for customs valuation purposes with the payment of such royalties or license fees.

[3] https://www.wcotradetools.org/en/valuation/tccv-texts. Commentary 25.1 "Third party royalties and license fees - General commentary" of the Technical Committee on Customs Valuation of the World Customs Organization, referring to article 8 paragraph 1 (c) of the Agreement on Implementation of Article VII of the General Agreements of Tariffs and Trade 1994 of the WTO.



For example, cases where the license to use an IP right to manufacture certain products is granted upon the payment of a royalty or license fee, but the products are manufactured and sold by a third supplier; in this case, the importer may be prevented from manufacturing the products to be imported whether or not paying the royalty or license fee that allows such products to be produced. This situation represents a case where the payment of royalties or license fees could be considered as a condition of sale.

In connection with the above, the Technical Committee on Customs Valuation of the WCO has established certain factors to be considered when determining if the payment of a royalty or license fee is a condition of sale or not[4]:

- There is a reference to the royalty or license fee in the sales agreement or related documents.
- There is a reference to the sale of the goods in the royalty or license agreement.
- According to the terms of the sales agreement or the royalty or license agreement, the sales agreement can be terminated if there is a breach of the royalty or license agreement due to the buyer not paying the royalty or license fee to the licensor. This is a direct relationship between the royalty or license fee payment and the sale of the goods being valued.
- There is a term in the royalty or license agreement that indicates if the royalties or license fees are not paid, a manufacturer is forbidden from manufacturing and selling the goods incorporating the licensor's intellectual property to the importer.
- The royalty or license agreement contains terms that permit the licensor to manage the production or sale between the manufacturer and importer (sale for export to the country of importation) that go beyond quality control.

[4] *Id.*

Right of Distribution or Resale

It is worth mentioning that applicable provisions establish that the payments made by the buyer for the right of distribution or resale of the imported goods shall not be added to the price actually paid or payable when they do not constitute a condition of the sale of such goods for export to the importing country.[5]

Right to Reproduce

Moreover, it should be noted that applicable provisions establish that the charges for the right to reproduce the imported goods in the country of importation shall not be added to the price actually paid or payable for the imported goods in determining the customs value.[6]

Royalties Paid On Objective and Quantifiable Data

According to the MCL, in order for royalties and license fees to qualify as an increase to the transaction value for customs valuation purposes, as a requirement, the royalties must be determined on the basis of objective and quantifiable data.

In other words, the transaction value of the products being valued will only increase to the extent that the concepts such as the royalties and license rights to be paid upon obtaining a license to use IP rights related to the products to be imported, are objective and quantifiable at the time of importation.

Taking the above into account, in the event that derived from a commercial operation there are royalties that must be added to the customs value and at the time of importing the goods in question, the importer does not have objective and quantifiable data to determine the amount to pay for concept of said royalties, this requirement would not be met and there could be reasonable arguments to sustain whether necessary with the Mexican customs authorities, that there would be no obligation to increase royalties in relation to the customs value of said merchandise.

[5] https://www.wcotradetools.org/en/valuation. Annex I of the Agreement on Implementation of Article VII of the General Agreements of Tariffs and Trade 1994 of the WTO; Interpretative notes of article 8 paragraph 1 (c).

[6] *Id.*

Other Considerations

In addition to the above, the following considerations should be taken into account when analyzing whether the payment of royalties or license fees for the use of IP rights should be considered as a condition of sale of a product to be imported into Mexico:

- Whether the owner of the IP rights is the seller in the transaction or not.
- Whether the manufacturer, seller, buyer, and owner of the IP rights are related parties or not.
- Whether the license is granted for the use of a patent to manufacture or a process to manufacture the product.
- Whether the products to be imported bear the licensed trademark or copyright.
- Whether the license is granted to use trademark for distribution, resale, and/or marketing purposes in the country of destination of the imported product.
- Whether the license is granted to reproduce the imported good in Mexico.
- Whether the license is granted to incorporate the IP rights in products after their importation into Mexico.

Determining if the payment of royalties and license fees for the use of IP rights in connection with imported products, as provided in license agreements, would cause the increase in the transaction value of the goods imported into Mexico for purposes of determining their dutiable base, is a task that must be performed on a case-by-case basis. Attention must be given to the verification of the conditions set forth in the applicable regulations.

It is highly recommended revising international sales, distribution, and license agreements that provide for the payment of royalties or license fees for the use of IP rights in connection to foreign trade transactions involving imports into Mexico, to determine whether the payment of these fees increases the customs value for purposes of these operations. You may find this recommendation also applicable for those country members of the WTO[7] to which the Agreement on Implementation of Article VII of the General Agreements of Tariffs and Trade 1994 is applicable.

[7] https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm

FDA Regulation of Cosmetics — The Beauty or the Beast

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With the passage the Consolidated Appropriations Act, 2023, the U.S. Food & Drug Administration (FDA or Agency) has increased responsibilities to regulate cosmetics under the Modernization of Cosmetics Regulation Act of 2022 (MoCRA). MoCRA significantly increased the regulatory requirements that must be met by cosmetic manufacturers and changes the current regulatory framework for cosmetics in place since the enactment of the Federal Food, Drug, and Cosmetic Act (FD&C Act) in 1938.

These major changes to cosmetic requirements will likely be quite burdensome to both large and small companies to comply with and could result in price increases to consumers and a decrease in availability for some product lines. It will be interesting to see the impact MoCRA changes will have on the cosmetic industry and consumers as implementation moves forward.

MoCRA's key provisions include:

Facility Registration and Product Listing

Each facility (domestic and foreign) that engages in the manufacturing or processing of a cosmetic product for U.S. distribution must register with the FDA no later than one year after the enactment of MoCRA, which was December 29, 2023. New facilities must register with the FDA within 60 days of initiating manufacturing or processing operations. Establishments that solely perform labeling, relabeling, packaging, or repackaging of cosmetic products are not required to register with the FDA. Furthermore, facility registrations must be renewed biennially, and the FDA must be notified within 60 days of any changes to information that is required to be submitted as part of registration. Note that foreign facilities must have a U.S. Agent.

A "responsible person" also must list each cosmetic product, including its ingredients, with the FDA no later than December 29, 2023. "Responsible person" is defined as the manufacturer, packer, or distributor of a cosmetic product whose name appears on the label.

Good Manufacturing Practices (GMP)

Under MoCRA, the FDA is required to promulgate GMP regulations for cosmetic manufacturing and processing facilities.

In establishing GMP regulations, the FDA must take into account the size and scope of the businesses engaged in the manufacture of cosmetics and the risks to public health posed by such cosmetics. Additionally, the FDA must provide sufficient flexibility to be practicable for all sizes and types of facilities to which such regulations will apply. These regulations must also include simplified GMP requirements for smaller businesses and should not impose undue economic hardship for these businesses.

Serious Adverse Event Reporting and Recordkeeping

A responsible person must report to the FDA any "serious adverse event" associated with the use, in the United States, of a cosmetic product manufactured, packed, or distributed by the responsible person within 15 business days after it is received. Additionally, for one year after the initial submission, the responsible

person must submit to the FDA within 15 business days of receipt any new and material medical information related to the initial report. A "serious adverse event" is defined as an adverse health-related event associated with the use of a cosmetic product that results in death, a life-threatening experience, inpatient hospitalization, a persistent or significant disability or incapacity, a congenital anomaly or birth defect, an infection, or significant disfigurement.

Safety Substantiation

A responsible person must ensure and maintain records supporting that there is adequate substantiation of safety of the cosmetic product. "Adequate substantiation of safety" is defined as tests or studies, research, analyses, or other evidence or information that is considered, among experts qualified by scientific training and experience to evaluate the safety of cosmetic products and their ingredients, sufficient to support a reasonable certainty that a cosmetic product is safe.

Mandatory Recall and Facility Suspension Authorities

MoCRA grants the FDA the authority to request a voluntary recall of a cosmetic product if the Agency determines that there is a reasonable probability that the product is adulterated or misbranded, and the use of or exposure to the product will cause serious adverse health consequences or death. If the responsible person does not comply with the FDA's request, the FDA can order a mandatory recall after providing the responsible person an opportunity for an informal hearing.

The FDA is also authorized to suspend a facility registration if the Agency determines that a cosmetic product manufactured by that facility has a reasonable probability of causing serious adverse health consequences and believes other products may be similarly affected. If the FDA suspends a facility registration, the facility is not permitted to introduce any cosmetic products into commerce until its registration is reinstated. Before suspending the facility registration, the FDA is required to provide notice and an opportunity for an informal hearing to the facility registrant.

Fragrance Allergens Disclosure, Talc Regulation, and PFAS Report

The FDA is required to promulgate regulations to identify fragrance allergens that must be disclosed on the label of a cosmetic product. In establishing these regulations, the FDA must consider international, state, and local requirements for allergen disclosure, including the European Union's substance and format for these requirements. Additionally, Congress has authorized the FDA to establish threshold levels of amounts of substances subject to disclosure.

MoCRA also directs the FDA to issue regulations to establish and require standardized testing methods for detecting and identifying asbestos in talc-containing cosmetic products. The FDA must issue a proposed rule within one year after the enactment of MoCRA, and a final rule no later than after the close of the public comment period for the proposed rule.

Preemption

MoCRA contains an express preemption provision that prohibits states from establishing any laws, regulations, or orders pertaining to cosmetics that differs from federal law with respect to registration and product listing, GMP, records, recalls, adverse event reporting, or safety substantiation. States are permitted to prohibit the use or limit the amount of an ingredient in a cosmetic product.

If you operate in this space or are looking to expand manufacturing and distribution to the U.S., thorough knowledge of MoCRA's requirements is needed to ensure compliance with the FDA requirements and to safeguard your operations/investment and brand.

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Foley & Lardner LLP is a preeminent law firm that stands at the nexus of the Energy, Health Care & Life Sciences, Innovative Technology, and Manufacturing Sectors. We look beyond the law to focus on the constantly evolving demands facing our clients and act as trusted business advisors to deliver creative, practical, and effective solutions. Our 1,100 lawyers across 25 offices worldwide partner on the full range of engagements from corporate counsel to intellectual property work and litigation support, providing our clients with a one-team solution to all their needs. For nearly two centuries, Foley has maintained its commitment to the highest level of innovative legal services and to the stewardship of our people, firm, clients, and the communities we serve.

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